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There are plenty of them, alas ... More on this week's lead article

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Politics this week

Apr 1st 2004
From The Economist print edition

Iraq killings

Reuters

Iraqis in Fallujah, an insurgent hotbed west of Baghdad, mutilated and abused the bodies of four Americans, who were killed after their vehicles were attacked in the town. At least two bodies were dragged through the streets, while two incinerated ones were hung from a bridge.

Four of the five permanent members of the UN's Security Council said they were ready to welcome an internal **UN investigation** into alleged corruption, possibly involving some of the international body's own staff, over the UN's oil-for-food programme in Iraq, which ended last year.

Israel's state prosecutor recommended that the country's prime minister, **Ariel Sharon**, be tried for accepting a bribe. It is now up to the attorney-general to decide whether a trial should go ahead.

The **Palestinian Authority's** prime minister, Ahmed Qurei, sounded hopeful for the first time that the Israelis' proposed withdrawal from the Gaza Strip could revive a peace process, provided there was also a withdrawal from the West Bank.

The annual meeting of the 22-member **Arab League**, scheduled for March 29th and 30th in Tunis, failed to happen at all, with Arab leaders arguing over the reasons for its postponement. Tunisia's president, the host, implied he had called it off because various leaders refused to welcome America's call for more democracy in the region.

See article

France, Germany and Britain criticised **Iran's** decision to start operating a plant for converting uranium into gas before its enrichment in centrifuges. Iran was supposed to have “suspended” all enrichment-related activity under a deal last October.

Coup attempts were reported in **Congo** and **Sudan**. Congo's involved a burst of fighting in the capital. Sudan's, if it really happened, never got past the planning stage, but the government arrested several prominent Islamist critics, including its own former chief ideologue, Hassan al-Turabi.

A planned series of anti-government protests came to an early end in **Côte d'Ivoire** after the security forces killed at least 37 and perhaps as many as 300 demonstrators.

A rough regional rebuff

AFP

President Jacques Chirac reshuffled **France's government** after his centre-right party suffered a humiliating defeat in regional elections. The current interior minister, Nicolas Sarkozy, becomes finance minister; Dominique de Villepin moves from foreign to interior minister; and Michel Barnier, a European commissioner, gets foreign affairs.

See article

A planned **Islamic bomb attack** was apparently foiled in Britain when police seized half a tonne of ammonium nitrate and arrested eight suspects, all British citizens of Pakistani

descent.

See article

Talks on a revised UN plan for the unification of **Cyprus** failed to win endorsement from the leaders of the island's Greeks. But the United Nations decided to go ahead anyway and put its plans to a vote in both parts of Cyprus on April 24th.

See article

The **Polish prime minister**, Leszek Miller, is to resign on May 2nd. His most likely successor is Marek Belka, an economic adviser in Iraq.

See article

The Irish government became the first in Europe to implement a **smoking ban** in all workplaces, including pubs and restaurants.

America's war on terror

EPA

After intense pressure, **Condoleezza Rice**, George Bush's national security adviser, agreed to testify in public to an independent commission investigating the September 11th attacks. Ms Rice has vigorously denied claims by Richard Clarke, a former White House terrorism expert, that more could have been done to prevent the atrocities.

See article

The new chief **weapons inspector** for Iraq, Charles Duelfer, told two congressional committees that the Iraq Survey Group had developed “new information” about Iraq's capabilities to produce chemical or biological agents at short notice.

Colin Powell officially welcomed seven new countries into **NATO**. Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia and Slovenia all handed over their instruments of accession to the secretary of state, as America is the depository nation for the defence organisation.

See article

The Massachusetts legislature voted for a state constitutional ban on **gay marriage**, though the decision has to be ratified next year and then confirmed by the state's voters. The state's Supreme Court recently confirmed that gay weddings can begin next month.

See article

Southern California, which is basking in unseasonably warm weather, had its first emergency warning from its **electricity** grid operator for nearly a year.

Bombs in Asia too

A series of bombs in **Uzbekistan** prompted a fierce response from its government: a shoot-out left more than 40 people dead. In the **Philippines**, the government announced that it had foiled a “Madrid-scale” plot aimed at blowing up trains in Manila, the capital. And in southern **Thailand** 1.4 tonnes of explosives were stolen from a quarry after ten thieves overpowered two security guards.

See article

Taiwan's political deadlock continued, though the courts were at last due to start considering whether to hold a recount of the presidential election of March 20th—a move backed by the president, who won, and the opposition.

See article

Interested nations met in Berlin to pledge further aid for **Afghanistan**, which is seeking $27.6 billion over seven years.

See article

Voodoo economics no more

While attending the annual meeting of the Inter-American Development Bank in Lima, Peru, Henri Bazin, **Haiti's** economy minister, said that he expected a meeting of international donors to take place in Haiti on April 15th.

Five months after a revolt led to the resignation of the country's president, a miner blew himself up in **Bolivia's** Congress building, killing or injuring several other people, in protest at unpaid pensions.

A report by **Canada's** auditor-general argued that the country's security agencies were failing to co-operate effectively to combat terrorism. It gave warning that the country was particularly vulnerable at airports and border crossings.

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Business this week

Apr 1st 2004
From The Economist print edition

Oil production cut

OPEC, the oil cartel, said it would cut production by 1m barrels a day, or 4%, in April. The move comes amid strong demand for crude oil.

British Petroleum shareholders are cheering high oil prices after the company announced it would give up to $33 billion back to shareholders over the next three years. This was prompted by its expectation that oil prices will continue to top $20 a barrel, and by strong growth in production.

Perhaps a new oil-exploration contract in Libya will help **Royal Dutch/Shell**, the troubled oil giant, pay its legal bills. The deal with a Libyan state-owned oil company could be worth as much as $1 billion. It will be a boost for Shell, whose share price has been pummelled in recent months after it restated its reserves. Shell faces investigations by federal regulators in America and class-action lawsuits from shareholders.

Pining for gold

Norilsk Nickel, Russia's biggest metals producer, paid $1.16 billion for a 20% stake in Gold Fields, a South African gold company. The deal was one of the largest ventures abroad by a Russian company.

Some 127 years after its founding, the **London Metal Exchange** is branching into new substances. It announced plans to start futures trading in plastics, the first such contracts in the world, by the end of this year.

See article

Bosses' blues

Ulrich Schumacher, the outspoken boss of Infineon Technologies, a German microchip-maker, will rile colleagues and employees no more. Mr Schumacher was ousted amid discontent with his leadership style, and with his plans to move some business abroad.

See article

Josef Ackermann, chief executive of Deutsche Bank, and five other defendants facing criminal charges in a high-profile trial in Germany seem likely to be acquitted after the presiding judge said that no criminal law had been broken. The charges had arisen as a result of Vodafone's takeover of Mannesmann in 2000.

Lawyers for **Martha Stewart**, the homemaking guru who was convicted of obstruction of justice last month, requested a new trial. They claimed that the failure of one of the jurors to disclose his criminal record stood in the way of a fair trial.

Shakour Shaalan, the Egyptian director of the **IMF**, proposed three candidates to be the organisation's next managing director—Stanley Fischer of Citigroup, Andrew Crockett of J.P. Morgan Chase and Mohamed El-Erian of PIMCO, a fund manager. Appointing Mr El-Erian or Mr Fischer, both of them Americans, would go against a longstanding tradition of awarding the post to a European.

Called to account

The **International Accounting Standards Board** released a set of accounting standards that will be used by dozens of countries and, from January 2005, all public companies in the European Union. A long-running dispute between the rule-making body and the European Union over how to account for derivatives and other financial instruments is still unresolved.

See article

America's **Financial Accounting Standards Board** (FASB) proposed requiring all public companies to deduct the cost of stock options from profits. Technology companies and other big users of stock options complained that doing so would make it hard for start-ups to attract talented workers and so stifle innovation. They will probably try to repeat their quashing of a similar idea that was proposed by the FASB in the early 1990s.

Standard Life, Europe's biggest mutual life-insurer, said that it wanted to demutualise. Until it found itself short of capital at the start of this year, it had stoutly resisted the idea.

See article

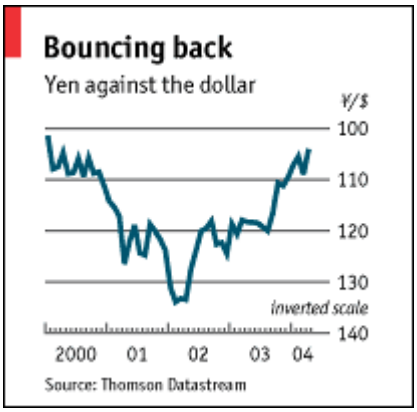
Britain's homeowners are still enjoying boom times. The Bank of England reported that mortgage lending grew 14.5% annually, the fastest rate in a decade. Nationwide, Britain's biggest building society, forecast a 15% rise in house prices this year.

The financial regulator of **Fannie Mae and Freddie Mac** announced that the two American mortgage-finance behemoths were adequately capitalised at the end of 2003 and could withstand a prolonged housing-market slump. Congress has been calling for tougher oversight of the two institutions since an accounting scandal erupted at Freddie Mac last year.

A yen to rise

Despite diligent dollar buying by the Japanese government, the **yen** surged to a four-year high, at ¥103.4 to the dollar, or about a cent each. Japanese businessmen, however, are apparently feeling more confident: the quarterly Tankan survey of business sentiment rose to its highest level in seven years.

See article



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The presidency

Better ways to attack George Bush

Apr 1st 2004
From The Economist print edition

There are plenty of them, alas

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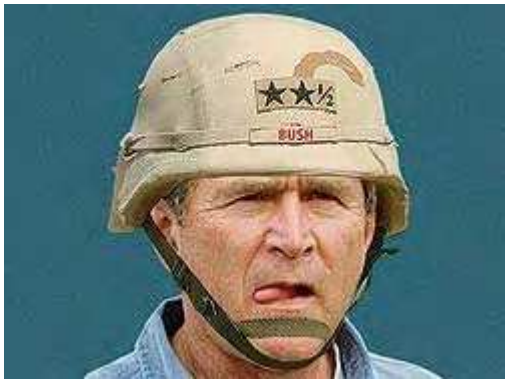

ANOTHER week, another worst one for George Bush since, well, the previous week. The recriminations surrounding Iraq will not die down. Richard Clarke, his former anti-terrorism co-ordinator, has revived the issues of whether Mr Bush's team was negligent in dealing with al-Qaeda before September 11th and whether the invasion of Iraq distracted attention from the real pursuit of terrorists. Yet, though Mr Clarke's book, "Against All Enemies", and his public testimony offered gripping glimpses into the inner workings of the White House, he has not really posed new questions nor offered new answers. Most people agree that the answer to the first issue is maybe, but understandably so; and, as to the second, that it depends on your view about the long-term anti-terrorist benefits of reshaping the Middle East and punishing serial cheats. Nothing new has come out to alter that debate: some hate the invasion of Iraq, some think it was right. The twain will not soon meet, if ever.

The stranger thing is that, if opinion polls are to be believed, Mr Bush is not faring too badly despite Mr Clarke's barrage: he seems to have edged back in front of his Democratic opponent, John Kerry (see article). No doubt he would have preferred the barrage not to have happened and his national security adviser, Condoleezza Rice, not to have had to give public testimony before the special commission investigating September 11th. But he is holding his own, he has raised $170m and the conservative half of America will surely not let a "Massachusetts liberal" like Mr Kerry win without a fight.

Eventually the choice will come down, as always, to one between two flawed candidates. Mr Kerry's flaws will emerge later. But the Toxic Texan's flaws are already plain for all to see and range much more widely than those raised by Mr Clarke.

Our disagreements with George Bush

As regular readers will know, *The Economist* endorsed Mr Bush in the 2000 election once he had beaten our preferred candidate, John McCain. That still looks the right choice for that election. Indeed, Al Gore served a handy reminder of his unsuitability and poor judgment by endorsing Howard Dean. This newspaper also supported Mr Bush's most controversial action, the Iraq war—and despite the continuing instability in that country we do not regret that, either. But we still find much in this presidency to criticise and condemn.

Our list of difficulties stretches from stunning *voltes faces*, such as Mr Bush's introduction of steel tariffs, to "Don't Mess with Texas" discourtesies, such as his banning firms from countries who opposed the Iraq war to bid for contracts there, to abuses of power, such as Dick Cheney's refusal to reveal who talked to his energy commission. But in the end, he must mainly be judged by his response to two challenges—one eminently foreseeable, the other less so.

The predictable challenge has been the economic downturn—which may still be Mr Bush's weakest electoral point in the swing states of the mid-west. The president came to power shortly after the bursting of the economic bubble of the Clinton years. This was plainly not Mr Bush's fault, and his basic strategy of throwing money at the problem, in the shape of tax cuts and increased government spending,

has been the right one. Whatever the Democrats say, there is nothing wrong with running a deficit during a downturn.

Yet Mr Bush has done more than just that. His budgeting arithmetic has often been haywire: his most recent effort includes no provision for keeping troops in Afghanistan and Iraq beyond this year. His desperation to provide cuts in tax rates has often blinded him to more effective ways to stimulate the economy. As for government spending, he has scattered that around “like a drunken sailor”, as Mr McCain has put it, with far too much being doled out in pork for friendly industries.

The farm bill alone, another disgraceful piece of protectionism, cost $180 billion over ten years, and billions more have been given to drug and energy firms. Mr Bush's words may favour free markets but his actions have too often favoured big lobbyists. And even his words, lately, seem to have got stuck in his throat. Ever since the Democrats began flirting with protectionism, spreading myths about the number of jobs being outsourced abroad (see article), Mr Bush has been slow to defend free trade, flip-flopping between concern about outsourcing and an admirable defence of it. Meanwhile, scant effort has been made to reform the huge entitlement programmes that are due to go bust once the baby-boomers start to retire at the end of this decade.

The war president

Mr Bush's response to his other great challenge—the bolt from the blue that was September 11th—has been more resolute. The “war president”, as he styled himself earlier this year, has got many big things right. He has prepared his country for a long struggle; he has framed that struggle not just in terms of punishing terrorists but of spreading reform and democracy, particularly in the Middle East; and he has made a priority of weapons of mass destruction and proliferation, the importance of which has been underlined by events in Pakistan. In two-and-a-half years, he has driven al-Qaeda into hiding, toppled two barbaric regimes and induced several other roguish states (including Iran and Libya) to rethink their ways. Even his worst enemy would not depict him as a weak leader.

Yet mistakes have been made. The most obvious concern is Iraq. Contrary to Mr Bush's assertions, the war was one of choice, not necessity. Given that, it was foolish to exaggerate Saddam's weaponry, downright misleading to imply a link between the Iraqi leader and al-Qaeda, and hubristic to do so little to prepare for post-war reconstruction. (When Mr Clarke complains about people in the White House being obsessed about Iraq, one is tempted to reply: “if only they had been”.) Mistakes soon piled up: handing the running of the country to the Pentagon; letting looters rip out the infrastructure; disbanding the Iraqi army; and dismissing outside efforts to help.

Recently, however, Mr Bush has done better. The plan for a transferral of some power this summer to a provisional Iraqi government looks a realistic gamble. Rightly, he has promised not to cut and run from America's responsibilities. But the continuing violence in the country shows why Iraq, like Afghanistan, needs more troops, not fewer.

The wider question-mark comes with Mr Bush's own moral claims. He says his battle is not just a military one but also an effort to promote democracy and human rights. Yet he has too often undermined that effort. For example, Mr Bush has courageously called for the establishment of a Palestinian state, but has done virtually nothing to bring one into being. Israel's assassination of Sheikh Yassin, murderous as the Hamas leader was, drew only grudging criticism.

Moreover, despite the outpouring of sympathy in Europe for America after September 2001, Mr Bush's country now finds itself more resented by its main allies than ever before. Much blame for that should fall on European leaders stirring up anti-Americanism. All the same, in America's last great moral war, against communism, it became the champion of human rights through the Helsinki Accord; this time, the face of American justice is Guantánamo Bay and the trampling of civil liberties.

To a large extent, it is true, this president has been tidying up messes that his predecessors either created or failed to deal with—from nuclear proliferation to America's wretched schools and illegal immigration. And for all that Texan bluster, Mr Bush has been willing to change tack. On North Korea and Iran, he has taken a much more multilateral line; at home, he is looking at spending caps.

A Bush who combined some of his dogged determination and sense of purpose with a willingness to learn from his mistakes could in the end deserve a second term. To justify his re-election, Mr Bush does not have to be perfect—merely better than Mr Kerry. That is a choice Americans must make later this year.

And so, eventually, will this newspaper.

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John Kerry's corporate-tax plan

Clever politics, lousy economics

Apr 1st 2004
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The Democratic candidate's proposal is slick, but unwise

AP

GEORGE BUSH will try to make quick work of John Kerry in America's election campaign this year by painting the Massachusetts senator as merely another tax-and-spend liberal. But the president's task has just become harder. That is because Mr Kerry, in a recent speech in Michigan, a state that has suffered thousands of job losses since 2001, made a rather unexpected proposal. The man who rails at “Benedict Arnold CEOs” said that he wants to cut corporate taxes.

Well, almost. To be sure, Mr Kerry's plan would cut the top tax rate on all American corporate profits from 35% to 33.25%. The details, however, are less encouraging. Mr Kerry wants to eliminate a “tax break” that allows American firms to avoid American tax on foreign earnings that are not brought home.

Yet this “tax break” is not quite the example of corporate welfare that Mr Kerry claims. After all, America has one of the most imperialistic tax codes in the world. Almost uniquely for a rich country, America's taxmen take a bite out of its corporations' (and, as many expats learn, its citizens') “worldwide income”. Most rich countries' tax collectors worry far less about what goes on outside their borders. America's deferred taxes on foreign earnings have been an attempt to bring America's corporate-tax code closer to those of other countries.

Mr Kerry's real concern, of course, is not with philosophical questions of international taxation. Instead, he wants to slow the loss of American jobs to cheaper countries (see article). But such tinkering with the tax code is the wrong way to go about it. Mr Kerry's plan does little to make America more attractive to investment and new jobs at a time when many countries are slashing corporate-tax rates to much lower levels. It will make America's hideously complex tax code more so. Much worse, it tries to hamper trade through a change in the tax law. This is anything but “tax reform.”

When Mr Bush tried to save industrial jobs, which just happen to be concentrated in the states he needs to win most in November, he slapped tariffs on steel imports. Those were blatantly protectionist and were ruled illegal by the WTO last November. Mr Kerry's plan to stem job losses is more subtle. He is not, so far, advocating a new tariff on imports of foreign-made products, nor subsidising American exports.

Buy American?

His tax plan nonetheless amounts to protectionism by other means. For it is aimed squarely at discouraging manufacturing abroad by American companies. But it is a bizarre type of trade barrier, because it hits only imports from American firms abroad. A Japanese-owned factory in Malaysia, for example, exporting semiconductors to America but paying only local taxes, would be at a great advantage against a similar American-owned plant, which would be subject to America's higher tax rate. Mr Kerry thinks he is encouraging bosses to keep jobs at home. Instead, he may just prod American consumers to buy even more from foreign companies.

Mr Kerry says he wants to level the tax rate between American firms' manufacturing in America and their manufacturing in foreign countries. But genuine tax reform would level the playing field by bringing all corporate taxes down radically, rather than slapping what is in effect a big new tax rise on American firms' foreign operations. The timing of Mr Kerry's plan is especially bad. Tax competition is surging around the world. Ireland has used low corporate taxes to fuel a surge in investment and sharp reduction in unemployment. Central European countries from Estonia to Slovakia are now catching on. Russia's taxes are a flat 24% of profits.

For sheer political cleverness, Mr Kerry's plan deserves full marks. Voters are anxious about offshoring, and domestic firms, at least, will be grateful for the cut in their rates. Indeed, with his new enthusiasm for rate cuts, Mr Kerry may yet shed the label “liberal”. But that should not distract from the truth about his proposal: it is unwise, likely to be counterproductive and seems to be meant mostly to mislead voters.

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Arab democracy

Imaginable?

Apr 1st 2004
From The Economist print edition

Despite its summit fiasco, the Arab world is groping for democracy

AP

NOTHING better illustrates the distress of the Arab world than the muddle, buck-passing and recrimination that attended this week's last-minute postponement of the Arab League's annual summit in Tunis. For sure, such meetings have in the past all too often distinguished themselves by the sanctimonious irrelevance of their declarations and a readiness to blame others, especially the United States and Israel, for the region's home-grown failings. But at least the organisers usually ensure that representatives of the 22 countries put on a show of unity, albeit by issuing anodyne statements invariably buttressed by that oldest of friends, the lowest common denominator. This time even that stalwart helpmate deserted them.

Given the Arab League's less than impressive history, is the fracture in its unity now a good or a bad thing? One mooted reason for the disarray was that Tunisia's president, despite his own lamentably undemocratic record, was outraged by the failure of his fellow Arabs to agree upon an agenda to include even an implicit welcome to the Americans' worthy call for democratic change in the region. He declared the meeting over before it had begun. Representatives of the member countries may yet gather in a month or so, though no one quite knows where. Meanwhile, in the eyes of the 280m-odd Arabs, a world that often seems hostile to them will chuckle over yet another self-imposed humiliation.

That is a pity, for, under the customary blanket of denial and blather, tentative but unmistakable stirrings of democracy and genuine self-analysis are appearing across the Arab world (see article). The region is unusually ripe for change. One reason for the curmudgeonly reaction of many Arab rulers is that this, for many of them, could mean the chop. Another is that the most recent impulse towards greater popular participation has come from outside—at the behest of those much-reviled, seemingly arrogant Americans. But a growing number of thoughtful Arabs, including some in power, know that the region's surliness and stagnation can be addressed only by a steady opening up of its politics and its economies. They know, too, that if—still a big if—Iraq settles down to become a pluralistic, decentralised, economically open and more-or-less democratic state, then the momentum for change across the region will gather pace.

Knock your heads together, then

A concerted Arab effort to acknowledge past failings would be particularly timely. Two admirably candid reports in the past few years written by Arab academics for the UN's development programme, and testifying to the link between political repression and economic backwardness, have powerfully

underscored the need to loosen up. Arab help is sorely needed, too, to regenerate the near-moribund Israel-Palestine peace process; its continuing bloody stalemate casts a blight across the entire region, fuels a glum reluctance to do anything that Israel's American friends might propose, and provides an excuse to stifle Arab democracy at home.

An inability to embrace greater democracy is not inherent in Islam—witness progress in Turkey, but also in Malaysia and Indonesia. There is no reason why Arabs cannot do likewise. But if their rulers cannot even agree to discuss such matters, outsiders may be forgiven for querying their proclaimed determination to make their countries worthier of respect.

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Europe's unpopular governments

Reluctant reformers

Apr 1st 2004
From The Economist print edition

European leaders need to make a better case for reform

AFP

ACROSS the continent, Europe's voters are posing a conundrum for their governments. Most Europeans now accept, as a general proposition, that if their economies are to return to faster growth, and unemployment is to be cut, their bloated pension, welfare and health-care systems, and their rigid labour-market regulations, all need fairly radical reform. Yet at national or local elections they are proving quick to punish governments that put forward any specific proposals that would inflict pain.

The latest example is France, where the ruling centre-right party was mauled by the left in last weekend's regional elections. But governments of the left that have tried reforms have suffered as well. Germany's Gerhard Schröder has just been forced to step down as party leader of the ruling Social Democrats, whose poll ratings are at an all-time low. Indeed, most European leaders, left or right, seem unusually unpopular just now. Poland's prime minister is quitting; Spanish and Greek voters have turfed out their governments; Italy has just seen yet another general strike against reforms.

Governments everywhere tend to suffer mid-term blues. And French voters have formed the trying habit of turning against parties they supported barely a year or two earlier—a habit that now seems to be spreading to central Europe as well. The French president, Jacques Chirac, has reacted to his latest setback by reshuffling his cabinet (see article). So far, it might just be politics as usual. But the disconnect between the necessity for reforms and voters' willingness to accept them could now threaten Europe's sickly economies with another turn for the worse.

The danger is that politicians may respond to electoral setbacks by slowing down the pace of change. Jean-Pierre Raffarin, who narrowly hung on to his job as French prime minister this week, declared after the regional vote that reforms would continue, because they had to. The choice of Nicolas Sarkozy to be the new French finance minister is promising: this hyperactive former interior minister is probably the nearest thing to a free-marketeer that the Raffarin government can find. Across the Rhine, Mr Schröder last week delivered a similar message to the German parliament about sticking to his Agenda 2010 reforms, despite party troubles. Italy's Silvio Berlusconi has also promised to hold to the reform path, including tax cuts, no matter how many strikes he has to face down.

The realisation around Europe that, as Margaret Thatcher once famously said, there is no alternative, is undoubtedly correct. But even if some reforms are inevitable, it is all too easy to water them down, or to postpone their introduction. A chastened Mr Schröder has already slowed the speed of reforms. However energetic Mr Sarkozy proves to be, his boss, Mr Chirac, has always been more of a political survivor than a genuine reformer. The same is true of Mr Berlusconi, who has put more emphasis on resolving his own

legal problems than on reviving Italy's moribund economy (see article).

Reluctant reformers might retort that, if Europe's people are unwilling to accept change, that should be their democratic right. So long as they are prepared to pay the price in sluggish growth and higher unemployment, why bother? Yet all the signs are that they are not happy to pay that price. The recent dissatisfaction with European governments is surely driven as much by grumpiness over continuing poor economic performance as by hostility to reforms.

True believers needed

Moreover, although few voters welcome painful changes—why would they?—experience shows that they can be persuaded of their necessity. In Britain, the-then Mrs Thatcher won two elections in the 1980s even as she pushed through tough reforms. In the 1990s, Dutch, Irish and Scandinavian governments were similarly re-elected—and their economies are now in better shape as a result. Admittedly, there were other reasons for these poll wins, and it was easier to make reforms when economies were growing; but that merely underlines the failure of France, Germany and Italy, in particular, to make changes during the good years of the late 1990s.

The lesson for the likes of Mr Chirac, Mr Schröder and Mr Berlusconi is clear: they must make a more convincing case of the need for change than they have done so far. Too often, they have themselves seemed to be reluctant reformers. So it is not surprising that their electorates have copied them. True believers can prove surprisingly persuasive—especially if they have a good case to sell.

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Anti-globalisation

From anarchy to apathy

Apr 1st 2004
From The Economist print edition

Anarchists seem to be having trouble getting organised. Let's give them a hand

AS THE March winds drop, England looks forward to the familiar heralds of spring—the primrose, the cuckoo and, on May 1st, the anti-capitalist protests that in recent years have left London's streets full of glass and the pockets of its policemen full of overtime pay. But now there is worrying news from the London Mayday Collective, an alliance of anarchists, communists, greens, and associated window-breakers and street-partyers that has organised, if that is the right word, the rougher side of the event in previous years. It says it is not planning anything this year. The police are not convinced. The announcement may be a bluff. But things sound quiet on the front line of the war against global capitalism.

There seem to be four reasons. First, internet debate suggests that the fragile alliance between, on the one hand, communists and what is deliciously described as the “official” anarchist movement and, on the other, “direct actionists” has broken down. The former think the latter have no ideology (“petit-bourgeois/muddle-headed types”), the latter think the former don't know how to party (“insipid leftist culture”). Second, the police have learnt how to manage the protests. Third, Iraq means there are bigger issues on people's minds than the evils of Starbucks. In which case, why not meld anti-capitalist with anti-war protests, as happened last year? Because, fourth, apathy has spread among the ranks. Discussion papers include sad references to “disappointing and poorly-attended meetings” and “sheer lack of turnout”.

As the mouthpiece of global capitalism, *The Economist* might be expected to rejoice at the movement's discomfort. Not at all. Everybody needs an opponent to keep him on his toes. The sight of nose-studded mohican-haired louts who hadn't seen a bath in a month wreaking havoc in the City served to remind the foot-soldiers of capitalism of the chaos that their daily grind was helping to hold back. Well, it gave them something to talk about, at least.

Let's party in Pyongyang

Given that the anti-globalisation movement has lent ideas to capitalism—at the mushier end of corporate social responsibility, for instance, where fear and conscience meet to try to placate the mob—capitalism should surely return the favour in anti-globalisation's dark days. There are plenty of modern management techniques which the movement could employ to reinvigorate itself. Has, it, for instance, tried benchmarking itself against comparable movements? If street protest is too arduous for the membership, should it not think of outsourcing its more strenuous activities to the immigrants who already do most of Britain's tougher jobs? Taking that argument further, if domestic apathy is the problem, perhaps the answer is offshoring. A Mayday protest organised in, say, Libya or North Korea would really make a splash.

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Letters

Apr 1st 2004
From The Economist print edition

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Economic injustice

SIR – The rich do "enjoy their privileges at the expense of the poor" ("A question of justice?", March 13th). That is the economic injustice embodied in the world capitalist system. The industrialised, western, world got rich partly because, over centuries, it was able to exploit colonies for natural resources and people, thereby keeping those colonies impoverished. This resulted in the colonies generally becoming monocultures which did not allow a general process of modernisation. Post-war, when colonies gained independence with economies still based on agricultural monocultures, former colonisers barred free access to world markets, through trade restrictions and non-trade barriers.

I do not want any centralised attempt to create a degree of worldwide economic equality—that would clearly not be possible. But if we practised real, unadulterated free trade—especially for all those products in which the developing countries have a clear comparative advantage—instead of simply advocating it in theory and rhetoric, then it would go some way to rectifying some of the injustices of the past on which the capitalist system has been built.

Keith Crawford
Prague

SIR – I am pleased to learn that as a citizen of a rich, industrialised country, my consumption does not affect consumption possibilities in poorer countries. This implies that the extraction of fossil fuels for my benefit does not harm the environment of the indigenous peoples whose lands overlay the oil, since otherwise their consumption of foods and ecosystem services derived from their lands would be reduced.

Furthermore, in burning fossil fuel, I do not cause climate change, since that would affect consumption possibilities for people around the world. Most remarkably, the oil renews itself, since otherwise my consuming it would ruin the chance for someone from a poorer nation to consume it at a later date. What a lovely world *The Economist* lives in—a world without ecological limits or externalities.

Tom Green
Vancouver

SIR – You argue that the rich do not enjoy their privileges at the expense of the poor. But is it not right that the economic policies followed by developed nations are quite often loaded against the poorer nations? A prime example is agricultural subsidies. European Union subsidies, for example, are destroying livelihoods in developing countries. By encouraging overproduction and export dumping, these subsidies are driving down world prices of commodities like sugar, dairy products and cereals. America teaches the virtues of free trade, while deploring outsourcing to developing countries. It is now even pushing the World Trade Organisation to extend the deadline for dismantling the multi-fibre agreement until 2007 despite having had ten years to sort things out. While developing nations share part of the blame, let us not absolve the rich nations of their sins.

Kunal Kumar Kundu
Mumbai

SIR – You assert that widening inequalities may be a price worth paying for an increase in average living standards. Yet in numerous cases where these are rising, the situation of most very poor people remains substantially unchanged. Thus, those reaping the benefits and those paying the price for current trends

are not the same people. Moreover, these two groups' respective assessments of whether the price is worth paying will vary considerably.

In Arundhati Roy's words, people's view of the effects of globalisation on world poverty will differ, “depending on whether they come from the villages and fields of rural India, from the slums and shantytowns of urban India, from the living rooms of the burgeoning middle class, or from the boardrooms of the big business houses.”

Alec Irwin
Guillermo Paraje
Ritu Sandana
Jeanette Vega
Geneva

A new war?

SIR – You report the mayor of New York as saying that “the chance of a terrorist doing damage to you is a lot less than you getting hit by lightning” (“Keep on rolling”, March 20th). One hopes that George Bush does not agree. The “war on weather” would be difficult to prosecute.

David Peach
Isle of Man

Deeper roots

SIR – In a report on the Illinois Senate race you say that the African-American candidate, Barack Obama, “might do better as O'Bama” given Chicago's “deep Irish roots” (“Money and brains”, March 13th). The city's African-American roots are even deeper. It was founded by Jean Baptiste Point du Sable, an escaped slave, who established a trading post there with his native American wife.

Erik Honda
San Francisco

Beyond belief

SIR – I agree that Ingrid Betancourt is no more special than any of the other 3,000 kidnap victims held by the FARC guerrillas in Colombia (“A symbol—but of what?”, March 20th). She was an unpopular politician and failed to defend the poor or hold any remarkable stand on any substantial issue. Her presidential bid would have been heavily defeated were it not for her capture while trying to enter a combat zone from which everybody had asked her to stay away. Her popularity in Europe is beyond belief for Colombians. We see her as what she really is: an ordinary politician in a country with a 40-year-old conflict for which nobody has a quick fix.

Nelson Vanegas
Medellin, Colombia

Marking territory

SIR – Thank you for your obituary of Virginia Fiennes (March 13th). But was it really true that at both poles Bothie, her Jack Russell, “made his mark...not far from the Union Jack”? Or was it a Union Flag, without the presence of a ship and its jackstaff? I am sure that Sir Ranulph would not have been in possession of a needless piece of kit.

Eamonn Gearon
Thornton Heath, Surrey

An honest man

SIR – You aptly write that “African politics are neither well nor widely understood” but add “the richer they are, the grander they build: Félix Houphouët-Boigny...erected a basilica” (“Presidents for life—and beyond”, March 13th). Houphouët-Boigny was never rich nor aspired to be. He was honest and tried to

do well for Côte d'Ivoire. As for why he built the cathedral in his native village, no African would have understood if he had not built it there.

André Igler
Vienna

Diss-tressed

SIR – It is disturbing to find sloppy vocabulary creeping into *The Economist*. You say that “some analysts were lauding shares in public and dissing them in private” (“The information gap”, March 20th). Surely that should read “bigging-up shares”?

Toby Foord-Kelcey
Oxford

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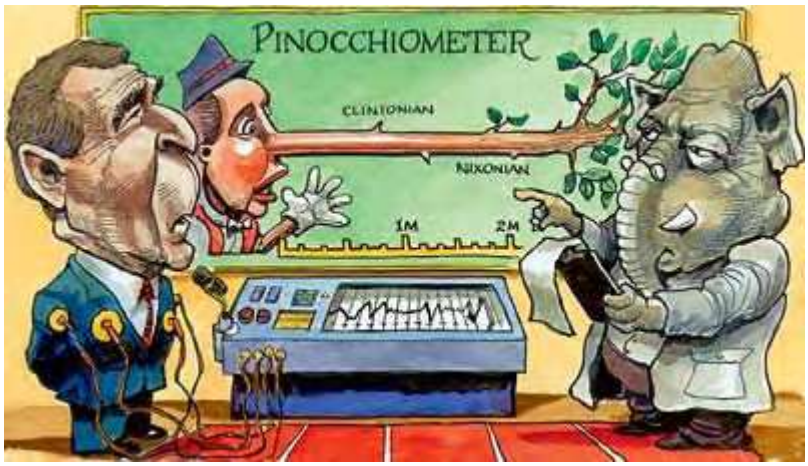
George Bush's credibility

A matter of trust

Apr 1st 2004 | WASHINGTON, DC
From The Economist print edition



Evidence is growing that the Bush administration has misled the public. But most voters, so far, are inclined to forgive

Get article background

GEORGE BUSH ran for president in 2000 promising to raise the tone of debate in Washington. He was not saying merely that he wouldn't have sex with interns. He was talking about basic honesty, promising to look facts in the face, not to spin (too much), not to make policy by opinion polls, and to give an honest accounting of his actions. He reiterated that position last month in an interview: “The American people [will] assess whether or not I made good calls...And the American people need to know they've got a president who sees the world the way it is.”

Yet the administration's reaction to accusations by Richard Clarke, its former counter-terrorism co-ordinator, raises doubts not only over its judgments but, still more, over whether and how the administration accounts for its decisions. When set in the context of the failure to find weapons of mass destruction in Iraq and the ballooning budget deficit, this reaction raises profound questions about the administration's credibility, honesty and competence.

Mr Clarke argued, in testimony to the special commission investigating the terrorist attacks of 2001, that terrorism was not a top priority before September 11th. The administration, he claimed, had failed to do as much as it could and should have done to disrupt the threat of global Islamic terrorism in its first eight months. In his book, he argued that the reason for the neglect was that the administration was distracted by its obsession with Iraq—symbolised by the president's repeated insistence, in the days after the attacks, that Mr Clarke should look into possible connections with Saddam.

These are serious charges politically for Mr Bush, who is running on his handling of national security. They are also serious charges substantively, because they challenge the performance of America's intelligence services and raise questions about whether war in Iraq was justified. And, on the substance, the administration's case in its own defence should and could have been better than it appeared.

It could, for example, have stressed that it was seeking a more ambitious strategy against terrorists than the one inherited from the Clinton administration, which Mr Bush called “swatting flies”. In fact, a new, slightly more aggressive strategy emerged a week before the attacks, but too late. It could have pointed out, as Mr Clarke conceded, that even had it done everything Mr Clarke wanted, it probably could not have stopped the September attacks. Mr Bush could have acknowledged (as he had done earlier) that he

had underestimated the threat from al-Qaeda before September 11th, but that afterwards he pursued the war on terror to the utmost extent. And he could have reminded everyone that, in 2001, Iraqi terrorism was a legitimate concern, if not a large one.

But to have done all this would have required acknowledging at least part of Mr Clarke's complaints. And that the administration was unwilling to do. It was still insisting that it had done everything it could have done before the attacks. So instead of treating the criticisms seriously, and replying to them seriously, the administration, with one or two honourable exceptions, began a campaign to discredit Mr Clarke.

Dick Cheney, the vice-president, suggested that he was doing it in revenge for not getting a promotion. He claimed Mr Clarke was out of the loop, a charge almost instantly contradicted by Condoleezza Rice, the national security adviser. The White House's press spokesman claimed Mr Clarke was doing it for both commercial and partisan reasons. (He is a friend of John Kerry's chief foreign-policy adviser, Rand Beers, who succeeded Mr Clarke in his counter-terrorism job before leaving for the Kerry campaign.) The nadir came when the leader of the Senate, Bill Frist of Tennessee, all but accused Mr Clarke of perjury before the Senate. Mr Frist even criticised Mr Clarke's apology to the victims of terrorism, saying he had neither the privilege nor the responsibility to make such a statement. But no one else from the administration has risen to that responsibility at all.

It has to be conceded that the administration's attacks are not made up from scratch. Mr Clarke had previously lauded the Bush administration's anti-terror policies before the attacks in off-the-record briefings, something he now dismisses as “a question of politics”. His accounts of the episode in which Mr Bush urged him, the day after the al-Qaeda attacks, to look into possible Iraqi connections vary a little: sometimes he describes Mr Bush's manner as intimidating, sometimes not. The White House has claimed that, just before the invasion of Iraq, Mr Clarke met Ms Rice but did not raise his worries that such an action would harm the war on terror.

Wilful inattention?

It might also be argued that the administration, in attacking Mr Clarke, was merely responding in kind to the personal criticisms that Mr Clarke himself had levelled at its members. For instance, he implied that Ms Rice had never heard of al-Qaeda before he briefed her in her early days in office, whereas in fact she had given speeches about the threat of al-Qaeda long before.

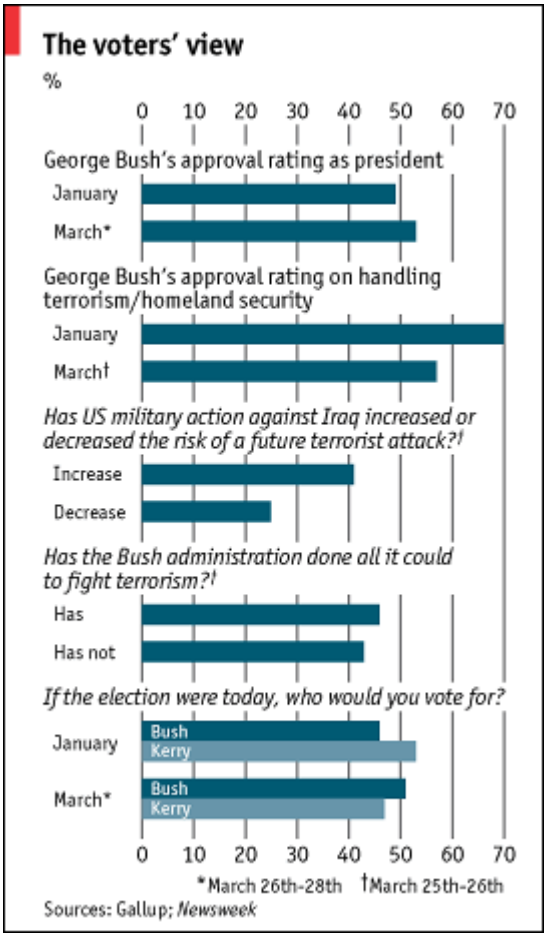
Yet when all is said and done, Mr Clarke was the administration's first crisis manager on September 11th, directing emergency responses from the White House itself that day. He had presented Ms Rice with a memo urging the administration “to imagine a day after a terrorist attack, with hundreds of Americans dead at home and abroad, and ask themselves what they could have done earlier.” This came one week before September 11th. And even if he had not been a prescient participant in much of the debate on terrorism within the White House, his arguments would still have merited better answers than they received—if only because they were also raised by others.

The special commission's reports corroborate his charge that proposals to resume unmanned Predator drone flights in Afghanistan were discussed only in desultory fashion at a lower level of the administration throughout 2001, while the “principals” (cabinet-level officers) were discussing other matters, such as Russia, Iraq and the Middle East. The Army War College argued that by attacking Iraq, “the administration unnecessarily expanded the global war on terror” and that this was done “at the expense of continued attention and effort to protect the United States from a terrorist organisation with which the United States was at war.”

That does not necessarily make the arguments against Mr Bush true. But as a philosopher, Sidney Hook, once said, “before impugning an opponent's motives, even when they legitimately

may be impugned, answer his arguments." The administration did not do this. Instead, by seeking to demean Mr Clarke, it neglected the questions he raised. Even to those who agree with the policies in the war on terror, this should be worrying.

More worrying still, the Clarke affair has a pattern: "never apologise, never explain." With the notable exception of Richard Armitage, the deputy secretary of state, the administration has refused to acknowledge even obvious shortcomings, such as its slowness in formulating a new counter-terrorism policy. It has not shifted its basic claim—to have done everything possible—in the light of conflicting arguments. It refused to allow Ms Rice to testify in public to the commission—White House officials do not usually do such things—until pressure to do so became irresistible, implying a certain reluctance to account for its actions before Congress (see article). It deployed ruthless character assassination against critics within its own ranks. The reason this pattern is disturbing is that all these features can be seen in the policy debates over both the war in Iraq and tax cuts—the policies on which Mr Bush deserves, above all else, to be judged.



In both cases, the administration stuck relentlessly to an unchanging line in radically changed circumstances. It argued that the tax cut of 2001 was justified because there was a large surplus. It argued that the tax cut of 2003 was justified even though there was a large deficit. It argued that war in Iraq was justified because Iraq's weapons of mass destruction threatened the United States. It argued that war was justified even when it failed to find those weapons.

This is not to assert that the policies were conclusively wrong, though many have argued as much. In both cases, the administration could still defend and justify its actions in different ways. It has claimed, for example, that tax cuts were right because they encouraged economic growth. It has justified war in Iraq variously as an integral part of the global war on terror, on humanitarian grounds, and as a first step towards the democratisation of the Middle East. And, of course, tax cuts and the Iraq war could also be disputed, as well as defended, on any or all of these grounds.

But some of these arguments are undeniably internally inconsistent. For example, if temporary tax cuts have spurred economic growth, why should they be made permanent, as the administration wants? Or if forecasts of vast budget deficits are bogus now (as the administration says), why did Mr Bush justify the 2001 cut on predictions of large surpluses?

Digging in

More important, in both cases, the administration has not engaged in any serious debate about the implications for its original arguments of changed circumstances. Rather, it has simply waved objections aside and restated its position. Paul O'Neill, Mr Bush's first treasury secretary, memorably quoted Mr Cheney as writing off the significance of budget deficits altogether: "Reagan proved deficits don't matter." In similar vein, Mr Bush dismissed the idea that the absence of WMD had any implications for perceptions of the Iraqi security threat. "So what's the difference?", he asked a television interviewer rhetorically last December, between Saddam actually possessing WMD and his moving to acquire them? The idea that the absence of WMD is insignificant sits oddly with the administration's earlier claims that the existence of the weapons was vital.

When justifying policies on both Iraq and tax cuts, the administration's case has been riddled with errors. Obviously, the most egregious concern Iraq's WMD. Henry Waxman, a Democratic congressman, has gathered no fewer than 237 exaggerated or dubious claims by senior administration members—an impressive litany of mistakes. One priceless example: Donald Rumsfeld in September 2002, asserting that "there's no debate in the world as to whether they have those weapons...We all know that. A trained ape knows that. All you have to do is read the newspapers." (Had the ape been trained to read?)

These mis-statements could be excused as hype, or errors based on faulty intelligence. But the administration can hardly pin all the blame on a gung-ho Central Intelligence Agency when it itself was even more convinced that Saddam had WMD, and was sceptical of the few words of caution that the CIA and others managed to interject. On March 30th, the new chief American weapons inspector for Iraq talked of “new information” about WMD but gave little idea what it was, beyond evidence of a general Iraqi capability to produce such weapons.

In the case of the deficit, the budget mis-statements cannot even be excused on the grounds of simple error. Mr Bush's budget statements have routinely assumed future spending restraints that few in Congress or the administration believe will happen. In forecasting future deficits, he has assumed revenue increases from taxes he is seeking to repeal (such as the so-called Alternative Minimum Tax). And as Mr O'Neill argued, the White House was wrong when it claimed, in 2001, that it could not use the budget surplus to pay off the federal debt beyond a certain point. All these are cases where the administration should surely have known better.

There have been a few specific instances of stepping near—perhaps even over—the line that divides error from irresponsibility. For example, the president claimed in October 2002 that Iraq had a “massive stockpile of biological weapons”. The CIA's director, George Tenet, has said he had no specific information on such stockpiles even at the time. In the state-of-the-union message in 2003 Mr Bush, citing British intelligence, claimed Iraq had tried to buy yellowcake uranium from Africa—a claim that had to be retracted. In March, Mr Cheney said there was no doubt that Saddam was trying to build a nuclear device. In fact, the intelligence services had expressed doubts.

But the most damning example comes from the budget process, and from lower levels of the administration. During the debate in Congress on a new Medicare prescription-drug bill, the cost of the programme proposed by the administration was put at $400 billion over ten years—even though analysts at the Department of Health and Social Security reckoned the real cost would be about $550 billion and, it is widely believed, had passed that estimate on to the White House and the Office of Management and Budget. But they did not pass it to Congress because, says a whistle-blower, the then Medicare administrator threatened to fire the chief analyst if he told legislators the higher estimate. There was legal justification for this, and the administrator denies making threats of dismissal. But the episode still looks disturbingly like a case of the administration manipulating federal accounting standards for political ends.

Lies, or principle?

On both Iraq and the budget, the administration has unloaded its heaviest ammunition against critics who formerly worked for it. John DiIulio, who was brought into the White House to implement Mr Bush's “faith-based initiative”, was told to retract his criticism that the administration lacked a proper policy shop for evaluating facts and arguments impartially. Paul O'Neill, who repeated that criticism in a book, found himself on the receiving end of a barrage of personal abuse. And when Joe Wilson, who had investigated the claims about yellowcake uranium, contradicted Mr Bush's assertion that there had been a deal, someone—it is not clear who—telephoned journalists in Washington to blow the cover of Mrs Wilson (Valerie Plame), who had worked for the CIA. Richard Clarke was not the first such target.

This pattern of behaviour is strikingly consistent. But what does it reveal? And how much will it really matter in the election? Critics of the administration have asserted that it means the whole crew is a bunch of liars—as John Kerry recently blurted out when he thought the microphone was switched off. The president always intended to go to war with Iraq; terrorism was just an excuse. All he cares about is tax cuts; fiscal discipline and spending programmes can go hang.

But there is another set of explanations, less damning of the administration. Most of the “lies”—almost all of which are actually mistakes or misrepresentations, not deliberate falsehoods—are products of the endless spin and interpretation of America's “permanent campaign”. Message control and winning each 24-hour news cycle have usurped the place of substantive debate. The Clinton administration was accused of similar lies and half-truths. It is as much the product of a political culture as of any one president, and Mr Bush's ambition to buck the trend has failed.

The administration came into office convinced that, under Mr Clinton, too much accountability to Congress had hampered effective government. Its members have therefore tried to re-assert executive privilege. Some of their attempts to keep Congress in the dark are rooted in this view, rather than in perfidy and secrecy.

Lastly, many of these “lies” have a curious quality: they tend to confirm the popular view of the president's temperament and beliefs. Usually, distortions suggest that the person responsible is putting on an act or is somehow different from what he pretends to be. Yet, at least in foreign policy, the administration's errors and misrepresentations all tend to confirm the president's image as a man uncompromising in his determination to fight the war on terror as he conceives it (at least after September 2001), and willing to ride roughshod over critics and nuanced intelligence alike to get his way.

And that in turn may explain one of the most surprising features of the past two weeks: that despite all the controversy over Mr Bush's honesty, credibility and competence, his position in the opinion polls has remained resilient. In several polls he has regained a narrow lead over Mr Kerry, and 50% of voters say they are more likely to vote for him because of his actions in the war on terror compared with just 28% for his rival.

Admittedly, the margin on the latter question was even greater two months ago, and more people now think the war in Iraq has increased the likelihood of another terrorist attack than think it has reduced it. Still, worries about Mr Bush do not yet seem to be translating into potential votes for Mr Kerry. It is as if voters, faced with the president's lack of straight dealing, are concluding that truth may indeed be the first casualty of the war they want to win.

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Searching for John Kerry's economic policy

Is there a there, there?

Apr 1st 2004 | WASHINGTON,DC
From The Economist print edition

AP

In his opening efforts at developing an economic policy, John Kerry is all fiddle and not much thrust

Get article background

THE partisan eruptions over the testimony given by Richard Clarke before the commission investigating September 11th may have given the impression that the presidential contest is going to be fought chiefly over foreign-policy matters, particularly George Bush's record in Iraq and on the war on terror. Yet this week, the ground shifted quietly back to the domestic issues of jobs, taxes and the economy that may, in the end, prove to be what the election will actually be all about.

On April 2nd, the latest employment report is due out. Recent monthly reports have recounted a truly dismal pace of job creation for so robust an economic recovery, and opinion polls affirm that this is by far President Bush's weakest point. In the days leading up to the report, Mr Bush defended his economic record, and his tax cuts in particular, while he and his lieutenants attacked the “tax-raising” record of Senator John Kerry, the presumptive Democratic candidate.

On March 26th, Mr Kerry delivered what he hoped would be seen as the most definitive economic speech of his candidacy thus far, the chief part of which is a “plan” to create 10m jobs during his first term. A few days later, he moved on to energy policy. More utterances on the economy are expected over the next few weeks. How is Mr Kerry's vision, such as it is, stacking up?

The symbolism of his jobs speech was not hard to miss. For his venue, Mr Kerry chose Detroit, where Bill Clinton, 12 years earlier, memorably steered the Democratic Party away from its disastrous old obsessions with class and redistribution, and laid out a creed that became known as “Clintonomics”: a mix of fiscal discipline, a limited but responsive government, and an economic populism that stressed jobs and growth over class war.

Mr Clinton's chief speechwriter in 1992, David Kusnet, now at the Economic Policy Institute in Washington, DC, points to the parallels in the way Mr Kerry has laid out his goods. Where Mr Clinton promised to “put people first”, Mr Kerry promises to “put jobs first”. Both men remember Franklin Roosevelt's call for “bold, persistent experimentation” on the part of government. And Mr Kerry, like Mr Clinton before him, pointedly seeks the centre ground—in this case by proposing a cut in the rate of tax that most American companies pay.

“Some may be surprised to hear a Democrat calling for lower corporate tax rates,” said Mr Kerry in Detroit. “The fact is, I don't care about the old debates. I care about getting the job done and creating jobs in America.” Such centrism, Mr Kusnet contends, covers Mr Kerry's fire as he attempts to narrow the tax debate with Republicans down to the least publicly defensible of Mr Bush's tax cuts: those on inheritance, dividends and capital gains that benefit the filthy rich.

The politics of the proposals certainly seem canny. For Mr Kerry addresses full-square the widespread perception, albeit a false one, that jobs outsourced overseas are at the root of America's “jobless recovery”. His answer is to end the preferential tax treatment of overseas earnings that at the margin encourages American companies to base production overseas rather than at home. And with the money thus saved, he will be able to cut the corporate-tax rate on the great bulk of American companies, from 35% to 33.25%. Cutting company taxes: not even Mr Bush has dared do that. Mr Kerry has stolen some Republican ground.

An accountant's dream

America's corporate tax system is certainly ripe for attention. America not only taxes its companies at a relatively high rate, it also, unlike other countries, taxes them on their worldwide operations. This puts American firms at a disadvantage overseas compared with lower-taxed competitors. So in order to help them, Congress over the years has legislated to allow American companies to put off paying taxes on overseas profits until these are actually brought home. Thus, a big pool of money—more than $600 billion, some say—sits abroad.

Mr Kerry proposes to bring that money home, by offering a one-year moratorium (another Republican idea) during which companies that repatriate profits pay only a 10% tax on money that is reinvested at home. Thereafter, tax on profits overseas must be paid immediately. The scheme, it is reckoned, will raise an extra $12 billion a year. The money will be spent lowering the overall corporate tax rate, as well as providing a tax credit to companies that take on new workers in industries, both in manufacturing and services, that are losing jobs to outsourcing.

This is the nub of Mr Kerry's vision, and it aims to play well in swing industrial states, such as Michigan, Pennsylvania and Ohio, that have been losing jobs. But is it really clever for the economy as a whole?

This newspaper has advocated getting rid of corporate taxation altogether (on the grounds that it is easy to evade, inefficient and bad for growth—and thus jobs). That, admittedly, would be a big step for a Democrat. All the same, the Kerry plan looks dangerously complicated and *dirigiste*—no small thing when the Republicans spend half their time claiming he is really French.

By offering tax credits at home to selected industries, he is asking bureaucrats to judge which industries to back. Even if you think this is a good thing, it will be fiendishly difficult to administer. How on earth can you measure, in the general fog of job creation and destruction, which industries are seeing jobs outsourced? And how do you discriminate between an overseas subsidiary producing for local consumption (which is still eligible for tax deferrals under the Kerry plan) and one producing for export (which is not)?

In the end Mr Kerry is simply tinkering with an already fiendishly complex tax code. His utterances this week on high oil prices—hastily wrapped up as a “policy”—had the same sort of opportunism about them. He promised somehow to put pressure on oil-exporting nations to increase output. He called for the impossible goal of energy independence for America. And he criticised Mr Bush for continuing to add to the country's Strategic Petroleum Reserve, even though such purchases have only a marginal impact on oil prices.

Admittedly, that can scarcely be worse than the White House's energy policy, which consists mainly of blaming the Democrats for blocking a pork-laden energy bill. Yet absent, still, from Mr Kerry's economic thinking is any sense of an overarching, unifying theme. The candidate's backers promise that, over the coming weeks, with more economic utterances, such a theme will somehow emerge. For now, though, Mr Kerry is no Bill Clinton.

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Voters abroad

A Scottish pat for Kerry

Apr 1st 2004 | EDINBURGH
From The Economist print edition

Far-flung Democrats say whom they want, and why

Reuters

Famous brother, familiar chin

THEY may be a long way from home, but they know the way things there are going. When Democrats Abroad (DA) held its caucus in the elegant Scottish city of Edinburgh on March 26th-28th, John Kerry won six of the nine delegates DA will send to the Democrats' candidate-nominating convention in July. Howard Dean got the other three.

This was no surprise, Mr Kerry being the virtually certain nominee. One pro-Dean delegate admitted that most ex-Deaniacs are now either working for or giving money to the Kerry campaign. The more interesting news is the speed with which DA has been expanding. The organisation reckons it now has 15,000 members, two-thirds more than six months ago. Republicans Abroad claims only 5,000-7,000. In the past year, Belgium's DA membership has grown from three to 300, Thailand's from seven to 112 and Australia's from ten to 150. Still, Republicans need not panic yet: a total of between 4m and 7m Americans live overseas (not including those in the armed forces), and in the past they have mostly voted Republican.

Of course, it takes an unusual level of commitment to spend an unseasonably warm weekend in one of the world's most beautiful cities talking politics in a hotel. But about 200 Democrats were prepared to do so in Edinburgh, more than had ever before taken part in a DA caucus. Though mainly well-to-do and well-schooled, they were a diverse bunch, including a congresswoman-turned-ambassador from Rome, a Peace Corps volunteer from Armenia and, looking remarkably like her big brother, Diana Kerry, a schoolteacher who has lived in Tehran and Jakarta. There was also a Texan Democrat from France with an American flag on her Stetson.

What pulls together such a disparate group of people? Taxation seemed the chief issue in Edinburgh. Most of the delegates were worried about the potential elimination from the tax code of Section 911, which allows some income earned abroad to be tax-free. There was also support for including Americans abroad in their country's census (which has been done on a trial basis in France, Mexico and Kuwait), and for extending Medicare benefits to them.

Not that the voice from Edinburgh will ring very loud at the Democratic Party's convention. The DA's nine delegates compare with the 96 Virginia (population just over 7m) will be sending. Still, this is better than Republicans living abroad will do. They send nobody to their party's convention, because they are not a recognised piece of the party. The consolation is that this means they are not constrained by the pesky limits American law sets on the money they are allowed to put into the election campaign. Far-off Republicans have no voice in picking their candidate, but their wallets can speak loud in November.

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Lethal injection

Unconstitutional?

Apr 1st 2004
From The Economist print edition

The Supreme Court examines the most commonly used method of execution

BACK in 1982, Texas became the first American state to carry out an execution by lethal injection. It was regarded as a surer, cleaner and above all more humane method than other forms of capital punishment such as the electric chair, hanging, gas or firing squad (just abolished in Utah). A decade later, lethal injection had become the preferred method of execution in all but one of the 38 states that still have the death penalty. Now it, too, is under threat.

In his appeal to the Supreme Court, heard this week, David Nelson, a 59-year-old triple murderer from Alabama, argued that the state's plan to cut deep into his flesh and open his veins in order to inject him with a lethal cocktail of chemicals amounted to a cruel and unusual punishment, and as such was forbidden under the Eighth Amendment of the American constitution. A less invasive operation was not possible, he said, because his veins had been damaged by years of drug abuse.

The key issue before the court is a technical one—whether last-minute appeals from death-row inmates should be allowed in federal courts. Congress reportedly plans to limit such appeals. But the case is helping reanimate the capital-punishment debate, already stirred by the fact that John Kerry, one of the few politicians to oppose the practice (except for terrorists), is running for the presidency.

According to the Washington-based Death Penalty Information Centre, at least 15 death-row prisoners have challenged the legality of the lethal-injection process during the past year. Although most received temporary stays of execution, all but two ultimately lost their appeals and were put to death. But in February a New Jersey judge ordered a halt to all executions in the state after ruling that research on the lethal-injection process was inadequate and the state's procedures for carrying out executions flawed. No matter that New Jersey has had no executions since 1963; it was the principle that mattered.

The lethal injections used by most states involve three drugs that enter the condemned person's arm or leg through an intravenous line. Sodium thiopental, an anaesthetic used in surgery, is first injected to render the convict unconscious. This is followed by pancuronium bromide, which paralyses the muscles and blocks breathing, but leaves nerve and brain functions intact. Potassium chloride is then administered to stop the heart.

Those who have witnessed executions by lethal injection say the deaths appear almost hauntingly serene, more evocative of an operating theatre than the gallows. But it is now argued that this tranquillity could be deceptive: if insufficient sodium thiopental has been administered, a paralysed yet wide-awake patient could find himself unable to speak, cry out or indicate his distress in any way as he first slowly suffocates and then suffers a massive heart attack. Most states' execution rules do not take account of the way people of different sizes absorb anaesthetic.

Apart from Japan, which carries out very few executions, the United States is the only big democracy to retain capital punishment. Abolitionists have made some progress in recent years, thanks to mounting worries about judicial error in capital cases. Twelve of America's 50 states have abolished the punishment, and several more have not used it since the Supreme Court reinstated it in 1976 after a nine-year moratorium.

Since then, more than 900 executions have been carried out, half of them in three states—Texas, Oklahoma and Virginia. After rising to a peak of 98 in 1999, the number of executions has been falling steadily, to 65 last year. The number of death sentences handed down by juries has fallen even more sharply—by 50% over the past five years. But seven in ten Americans continue to support the death penalty, and few see any chance of its abolition throughout the United States in the foreseeable future, if

ever.

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Industrial diseases

Pop, crackle, snap

Apr 1st 2004 | CHICAGO
From The Economist print edition

The dangers of making popcorn taste nicer

EVEN desperate job-seekers think twice about accepting hazardous work such as coal-mining, cow-slaughtering or cleaning up asbestos sites. But working in a popcorn plant? A snacker's idea of heaven, surely. Alas, no.

Last month a jury in a Missouri state court awarded $20m to Eric Peoples, a 32-year-old former worker in a popcorn factory who now has such severe lung damage that he breathes with an oxygen machine and is awaiting a double lung transplant. Mr Peoples's lawyer says his client got his disease—a rare condition called *bronchiolitis obliterans*—when he was mixing the flavouring oils that give the microwave popcorn its pleasant buttery taste.

The award is against International Flavours & Fragrances (IFF), a New York-based multinational, which four years ago bought Bush Boake Allen, the company whose flavouring was used at the factory. IFF, whose share price has fallen since the award was set, has vowed to appeal, claiming that its instructions were not properly followed in the factory where Mr Peoples worked in Jasper, Missouri. Mr Peoples has already received a workers'-compensation payout from Gilster-Mary Lee, a private-label food manufacturer which owns the Jasper factory.

The bad news for IFF is that this is only the first of 30 cases filed by workers at the factory. And there are other cases brewing. Eighteen workers at a popcorn plant in Ohio have sued IFF and another flavour supplier for lung problems. Health worries among popcorn factory workers using flavourings are being examined in several other states.

In January, the National Institute for Occupational Safety and Health (NIOSH) issued an alert to employers at popcorn factories and other food manufacturers after studies suggested that inhaling the high concentrations of some chemicals used in flavourings could be bad for human beings. NIOSH suspects that the chemical diacetyl is what caused the workers to fall ill.

Popcorn makers are concerned that the scare may spread to consumers. To be safe, the Environmental Protection Agency is testing microwave popcorn to find out whether any “emissions” are released when a bag of popcorn is popped or opened. So far, officials say, there is no evidence that consumers are at risk.

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West Virginia insulted

Call that a joke?

Apr 1st 2004 | MORGANTOWN, WEST VIRGINIA
From The Economist print edition

A state gets shirty about a T-shirt

THE weekend sun in Morgantown, a pretty college community, pulls people out of doors. Fraternity guys bask on their balconies. Families queue for Dairy Queen ice cream. But ask about West Virginia's quarrel with Abercrombie & Fitch, a company that likes to think it makes smart clothes, and the smiles fade fast.

The trouble is a T-shirt logo which reads, “It's all Relative in West Virginia.” This is designed to draw a coarse laugh from Americans who allege that West Virginians (and people from other states along the Appalachian mountains) are not only uneducated primitives but also tend to produce children from relatives other than their wives and husbands. Most of those sunning themselves in Morgantown reckon they have a sense of humour. But they think this particular crack is pretty 19th-century, as well as offensive.

The state's governor, Bob Wise, agrees. On March 22nd he wrote to the boss of the Ohio-based company, Michael Jeffries, asking that the shirts be removed from the market. Mr Jeffries refused, saying that he loved all 50 states of the union, including West Virginia, but that the shirts will remain in the shops. So on March 28th the *Columbus Dispatch*, Ohio's biggest paper, ran a letter to the editor in which Governor Wise asked the employees of Abercrombie & Fitch—many of whom come from West Virginia—to stop insulting the state, and themselves, by making the shirts.

He may succeed. The company has more than once crossed the line and then walked back again. A couple of years ago Asian-Americans took offence at “Two Wongs Can Make It White”, and in December a lot of American mothers saw nothing funny in Abercrombie & Fitch catalogues showing pictures of naked teenagers. Both were dropped. But so far the new T-shirt is still selling well and the company's pressman insists it will continue to do so. West Virginia, he adds pointedly, buys relatively (no pun intended) more of them online than any other state.

Governor Wise, though, is unlikely to give up. When the rival University of [next-door] Virginia's band brought the inbreeding theme into a nationally televised football game, it was invited to shut up. More important, the governor worries that the T-shirt could make people think West Virginia is a dismal place to do business.

The state's economy is not doing too badly. Tourism is up again, after the terrorist attacks of 2001. Some new companies are moving in: Sogefi, an Italian car-parts maker, has opened its first American factory in the town of Prichard, and Nippon Thermostat has set up business near Charleston, West Virginia's capital. The number of IT companies is growing.

But the older sort of industry is still in decline, and, despite its electoral value as a swing state, this sparsely populated, mountainous place seems near the back of the country's economic queue. There are a lot of for-rent signs in Morgantown's shop windows. So Governor Wise promises to fight on. A sunbasking student reckons the shirts will soon be out of the shops: “West Virginians really don't need this.”

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Gay divorce

Lawyers' delight

Apr 1st 2004
From The Economist print edition

The papers aren't available yet, but they soon will be

AFTER all the teary, flower-strewn weddings for gays and lesbians in San Francisco, New York, Oregon and elsewhere, what happens if the happy couples want to split? At the moment, nothing. Since no state has yet officially recognised homosexual marriage, the licences granted by renegade ministers and county officials are useless in terms of who gets the property or, if it comes to that, the children. The feuding newly-weds can just walk away from each other.

Not for much longer, perhaps. In May, Massachusetts is due to start granting same-sex marriage licences, though conservatives are trying to stop this through a state constitutional amendment and the courts. The California court system, too, will hear arguments about whether the state is right to define marriage as something that happens between a man and a woman. If California decides that homosexual marriage is legal, says William Hohengarten, a Washington-based partner at Jenner & Block, any break-ups from the recent San Francisco nuptials will probably need to go to the divorce courts.

Unless you are Britney Spears in Las Vegas (who rather conventionally married a man, albeit briefly) marriages do not usually break up right away. Belgium, which legalised same-sex marriages in early 2003 (the Netherlands was first, in 2001), has not yet seen any of those couples divorce, according to Hilde Vanbockrijck of Louvain's Catholic University. But it is anyway hard to get unhitched in Belgium, whether gay or straight, before you have endured two years together.

Still, same-sex divorce is already keeping legal minds busy. Herma Hill Kay, the former dean of the law school at the University of California at Berkeley, argues in a forthcoming article in the *King's College Law Journal* that American states are not prohibited by federal law from recognising same-sex marriages performed in other states. Therefore, she says, they should be able to grant same-sex divorces—and even states that oppose gay marriage may have an interest in doing so, because they would be ending something they view as a problem in the first place. If conservative states refuse to do so, they will make the marriages even more binding than those between heterosexuals.

Vermont's same-sex civil unions, around since 2000, have already shown how messy inter-state dealings can be. Last year a Texas judge granted a divorce to a homosexual couple unionised in Vermont. But when the state attorney-general weighed in to say that Texas cannot grant a divorce where a marriage never existed, the judge voided his decision. (Texas has no provision for “dissolving” a civil union, which is the proper way to do things in Vermont.) In Iowa last year, a county judge ended a Vermont civil union, apparently without realising it was between two women (it seemed just a routine part of his paperwork stack). He has since stood by his decision, but state lawmakers and conservatives have challenged it in Iowa's Supreme Court.

Of course, couples can always end their civil unions in Vermont. So far, 30 have, out of a total of 6,780 civil unions performed. But it is not always easy for out-of-staters, who account for 85% of all such unions. Vermont requires at least one of the two people wanting to get unhitched to have lived there for a year. Splitting up can be rather more complicated than getting married, or unionised, in the first place.

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Lexington

Boiled Rice

Apr 1st 2004
From The Economist print edition

She did the right thing—eventually

THE Bush administration's favourite charge against John Kerry is that he is a flip-flopper. But few Kerry flip-flops can compare with the recent performance by Mr Bush's national security adviser. For more than a week Condoleezza Rice adamantly refused to testify in public before the September 11th commission. But then suddenly, on March 30th, she gave in to a storm of protest and announced that she would testify after all.

Ms Rice's refusal to appear before the commission in public was not just knuckle-headed; it was a public-relations disaster. It allowed Richard Clarke, Mr Bush's former terrorism expert who has turned on his erstwhile masters, to seize the moral high ground; instead of Mr Clarke being pummelled for disloyalty, as the White House had hoped, the media coverage has focused on Ms Rice's obstinacy. Her refusal to talk also infuriated many families who had lost loved ones on September 11th. And it gave the impression to everybody except the most diehard Republicans that the administration has something to hide.

The more the White House tried to smother the controversy, the more it fanned the flames. Ms Rice's preferred compromise—testifying in private and not under oath—reinforced the idea that she was frightened of being caught in a lie. And her attempt to put her case across in the media—on March 22nd she appeared on four different breakfast shows—only added to the idea that something fishy was going on. Why act like a mute nun when it comes to speaking to a blue-ribbon commission and then be a compulsive motor-mouth on CBS and ABC?

It is tempting to blame most of this on the White House's image-manipulators. But Ms Rice is an intelligent enough person to know that the song she was being asked to sing sounded dangerously out of tune. She argued that her appearance before the commission would violate the “long-standing principle” of executive privilege. National security advisers serve at the president's pleasure, so they don't have to be confirmed by Congress. In the past, they have appeared before Congress only to deal with political accusations, not to explain administration policy. Zbigniew Brzezinski testified before the Senate Judiciary Committee about Billy Carter's relationship with the Libyan government, but Henry Kissinger did not have to explain the administration's strategy in Vietnam (in fact, he never appeared before Congress at all when he was national security adviser).

The White House's enthusiasm for executive privilege is understandable: Mr Bush inherited an executive

branch that had seen its powers relentlessly undermined since Watergate. But it was surely a mistake to engage in a turf war with a commission that is charged with investigating one of the tragedies of American history, particularly when the turf war is not as cut-and-dried as Ms Rice maintained: the September 11th commission is not actually a congressional body. Indeed, by picking such an unwinnable fight, Ms Rice has arguably undermined the principle of executive privilege that she claimed to be fighting for.

Condi's promise

Can Ms Rice's flip-flop put things right? A great deal hangs on the quality of her performance. On the talk shows she has let her personal irritation with Mr Clarke ruffle her feathers, but Ms Rice is an eloquent speaker, with a sure command of her brief. Yet, from the White House's point of view, even a stellar performance will probably recover only some of the ground lost. Whatever she says, the Democrats will still point out that Mr Bush's adviser had to be dragged kicking and screaming to Congress when she should have been happy to testify.

From Ms Rice's own point of view, her coming appearance will be a pivotal one in her career. She has briefly been in the eye of the storm once before—over the insertion of a claim about Saddam Hussein's search for uranium in a state-of-the-union address. But she has enjoyed a glowing press, helped by a compelling personal story. She grew up in segregated Alabama (where four of her childhood school-friends were burned to death) but rose to the heights of academia, and now of Washington. Courteous and with a good memory for names, she is liked within the White House. Democrats have generally gone easy on her, partly, yes, because she is a black woman but also because she is neither as Machiavellian as Karl Rove nor as brutal as Dick Cheney. There has been talk of her running for the governorship of California or even for the vice-presidency.

Yet the past week has shone the spotlight on Ms Rice's weaknesses. Her composure can sometimes come across as coldness, particularly when she is dealing with an emotional subject such as September 11th. As for her competence, it is plainly an exaggeration to claim, as Mr Clarke does, that she was unprepared for the post-September 11th world. She had given warning of the growing threat of biological and chemical weapons, and of terrorist networks. Yet, equally plainly, her main interest lay in the old world of great powers and realpolitik. She was sharply hostile to nation-building, now at the heart of her portfolio. Now that terrorism has become the main focus of American foreign policy, the logical Ms Rice has had a hard time dealing with the huge (and highly emotional) disagreements that have torn the Bush cabinet apart—particularly between the diplomats at the State Department and the hawks in the Pentagon.

This is not to say that Ms Rice is fatally wounded. It is doubtful that even the wily Mr Kissinger would have been able to control such big political beasts as Donald Rumsfeld and Colin Powell in the wake of September 11th. Ms Rice still enjoys the most valuable resource in Washington—the president's unqualified approval. And she bears less responsibility for the past fortnight's muck-ups than Mr Bush himself. But, for all that, she will go before the September 11th commission a chastened and somewhat diminished figure.

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Latin America's economies

Life after debt

Apr 1st 2004 | LIMA
From The Economist print edition

Lonely Planet

Latin America needs more reform. Now is a good time to do it

THE streets leading from the airport to an improvised conference centre in Peru's National Museum were adorned with flags and freshly painted white lines to greet the bankers and policy wonks who turned up in droves for this week's annual meeting of the Inter-American Development Bank (IDB). But the beautification did not extend to filling in the potholes along the route. So it is with the Latin American economy. The region is experiencing a welcome recovery after several lean years. But its underlying faults depressed any party spirit at the IDB shindig.

First, though, the good news: by common consensus, the regional economy is set to grow by around 4% this year. Apart from a blip in 2000, that is the best performance since 1997. Inflation, for so long a Latin vice, remains in check in most places (Venezuela is an exception). Growth is fairly evenly spread, but strongest in Argentina and Venezuela, both of which are rebounding from catastrophic crashes—brought on by the collapse of a fixed exchange rate in Argentina's case, and political trauma in Venezuela's.

Two factors have helped to drive the growth. One is an unusually helpful world economy. Prices for Latin America's raw materials have soared, especially when expressed in the sickly dollar, partly thanks to voracious demand for them in China. Since international interest rates are still low, money is cheap. So foreign capital has been trickling back, as investors seek higher returns than they can find at home. The average spread—the risk premium above the yield on bonds issued by the American Treasury—on Latin American bonds halved in the year to January, to under 5%. The region's stockmarkets have boomed, too. In all, the inflow of private capital to Latin America could total $43 billion this year, up from a low of $19 billion in 2002 (though still below the peak of $99 billion in 1998), says the Institute of International Finance (IIF), a bankers' group.

The other helpful factor is that the region is at last better placed to take advantage of its opportunities. Almost all its countries have devalued their currencies in recent years, and adopted floating exchange rates; many have also adopted inflation-targeting, given greater independence to their central banks and made efforts to put their fiscal accounts in order. The switch to floating exchange rates has helped to propel a dramatic turnaround in Latin America's balance of payments. With exports booming, the region's current account showed a small surplus last year, compared with a deficit of 4.4% of GDP in 1998 when it began to get into difficulties. That in turn means that foreign debt has fallen from 232% of exports in 1998 to 186% last year, according to the IIF.

But there is a but. Some analysts worry that a slowing of China's breakneck growth would cause prices for Latin America's soya beans and copper (not to mention oil) to crash. Most expect a rise in American

interest rates by next year: a sharp one might be a headache for Brazil, unless its recovery gathers pace and its political tensions subside (see article). A rise in real interest rates of four points would be enough to make Brazil's public debt unsustainable, warns Guillermo Calvo, the IDB's chief economist.

A bigger worry lies closer to home. In its annual report, the IDB argues that “the recovery is still fragile because of a succession of severe after-effects following the period of stagnation.” One such after-effect is that the region's public debt rose from 37% of its GDP in 1997 to 51% in 2002, before starting to decline. Another is that in the region's seven main economies, bank lending to the private sector fell by 20% in real terms between mid-1998 and October 2003. Partly as a result, investment has been running at 20% below its peak level of 1997. And unemployment and poverty have both edged up, helping to foster political uncertainty.

Growth of 4%, while welcome, is not enough to make much of a dent in poverty. Above all, what has held Latin America back is the tendency for busts to follow its booms. The challenge is thus “to administer well the commodity bonanza”, as Enrique Iglesias, the IDB's president, puts it. So sustaining the recovery means taking advantage of better conditions to do some urgent repair work.

To begin with, more thorough fiscal reform is urgent. There is now an emerging consensus that “safe” levels of public debt in Latin America are much lower than those for rich countries. Argentina's default, and its subsequent failure to reach agreement with its creditors, reinforced that view. Yet many governments (here Brazil is an exception) struggle to raise enough tax revenues to pay for a modern state. Much cash goes on salaries and pensions, leaving little or nothing for public investment. So roads and energy networks are often inadequate. Efforts to attract private investment for infrastructure have had only patchy success. They are not being helped by the decision of Argentina's government to freeze the prices charged by privatised utilities, a move that has begun to lead to energy shortages.

At least governments of both right and left have embraced macro-economic stability—in principle. But in the main countries there is almost no progress on the micro-economic reform needed to boost sagging competitiveness, argues Joyce Chang of J.P. Morgan Securities. Poor infrastructure, clumsy regulation and wayward judiciaries mean that doing business in Latin America remains more difficult and costly than in many countries in Asia or eastern Europe, with which it competes. Moreover, compared to workers in those regions, Latin Americans tend to be better paid but less well educated. Hardly surprising, then, that remittances from Latin Americans abroad—$38 billion last year, according to the IDB—make a bigger contribution to the region's balance of payments than foreign direct investment.

Perhaps the main ground for hope is that governments are running out of ways of paying for procrastination. Latin American voters no longer tolerate inflation; the region is at last becoming more cautious about debt. Proper reform might become the least unpalatable option.

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Brazil's government

Out of love

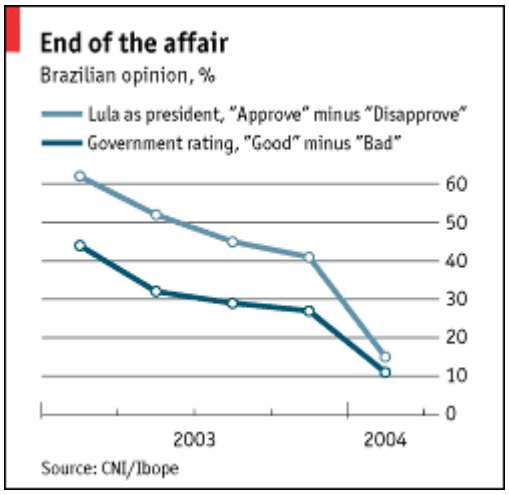
Apr 1st 2004 | BRASÍLIA
From The Economist print edition

Lula slips from a small scandal towards a major crisis

Get article background

THE low point may have come when the head of a government party called for the sacking of the finance minister, Antônio Palocci. Or maybe it was when José Dirceu, the embattled chief of staff to Brazil's president, lashed out at friendly members of the opposition. For the queues of passengers at Brazil's airports, the nadir was the strike by the federal police that delayed their travel. Whichever embarrassment you pick, something has clearly gone awry for the 15-month-old government of President Luiz Inácio Lula da Silva.

Thus far, Lula's government has rested on two pillars: his own extraordinary rapport with voters, and a grand alliance with most parties in Congress. Both are wobbly. The latest opinion polls register steep declines in Lula's popularity and that of his government (see chart). He has been defending controversial but necessary economic policies since taking office, and is used to disgruntled public servants and "friendly fire" from allied politicians. But the attacks from his supposed colleagues, including in his own Workers' Party (PT), have become more brazen. The opposition is shrill with charges of paralysis and ineptitude: there is a "crisis of management", says José Carlos Aleluia, a leader of the opposition Liberal Front Party (PFL).



It started in February, when a top aide to Mr Dirceu was shown to have solicited bribes in his earlier job as head of Rio de Janeiro's lotteries. Its reputation endangered, the PT turned what should have been a little scandal into a big one by blaming everyone but itself. "The government administered this crisis badly," admits Paulo Bernardo, a PT member of Congress.

That would matter less if it were seen to be managing other things well. But the economy shrank last year, unemployment is growing and businessmen grumble that government inefficiency is holding up investment. Every setback, whoever is responsible, adds to the air of crisis. Mr Palocci's policies, Mr Dirceu's effectiveness and Lula's leadership are all in question.

That troika has reserves of strength and the means to recover. Despite the erosion of public support, caused more by pocket-book worries than by scandal, Lula is still surprisingly popular. His political managers are placating allies in Congress by releasing funds for local pork-barrel projects. The government hopes that investment by state-owned enterprises will generate jobs. It will trumpet a new industrial policy (which is unlikely to do much good) and a new regulation framework (which could do a lot, if designed properly).

With municipal elections due in October, there is much talk among politicians of "calibrating" policy to encourage more growth. The main ideas are to allow a bit more inflation, so interest rates can fall faster, and to reduce the "planned primary surplus" (which does not include interest payments) from 4¼% of GDP.

Any abandonment of Lula's tough-love economic policies would spur inflation and undermine confidence in Brazil's ability to pay back debt, thus raising its already crushing cost. But the government so far

shows few signs of yielding to pressure. Joaquim Levy, a senior finance ministry official, does “not see why we should change” the central bank's inflation target. Lula's team might exempt some investment by state enterprises from its primary-surplus calculation, but that is unlikely to bring swift relief.

Still, the economy may not need it. It began growing again last year, and unemployment—which seasonal factors have pushed up—should soon start to subside. With a little luck, that will stop Brazil's management crisis from mutating into an economic one.

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Western Canada

The great divide

Apr 1st 2004 | VANCOUVER
From The Economist print edition

Can western Canada and Ottawa learn to love each other?

WHEN British Columbia joined the new Dominion of Canada in 1871, it was promised a transcontinental rail link to the Atlantic by 1883. The railway was built late, and only after the territory threatened to secede. Ever since, western Canada has tended to regard itself as a resource-rich colony, exploited by the more developed and populous east: over-taxed, and neglected by the federal parliament and its spending programmes. Notwithstanding the contempt with which westerners have historically viewed his Liberal Party, Paul Martin, prime minister since December, has vowed to address this rancour across the Rockies. Unfortunately for him, a scandal has endorsed the worst western fears about eastern politicians.

Easterners like Mr Martin often dismiss western grievances as the grumbling of fat-cat British Columbians and Albertans, or of glum Saskatchewan and Manitoba farmers. But the evidence for what sociologists call “western alienation” is compelling. The Canada West Foundation (CWF), a think-tank, last year reported a “deep-seated belief” among westerners that “the government of Canada doesn't listen [to them], doesn't understand, and doesn't care.” Last month a CWF poll found that 64.7% of westerners felt their province's interests were poorly or very poorly represented at the federal level.

Unusually for a Canadian prime minister, Mr Martin acknowledges that the syndrome exists. He gave the two top jobs in his cabinet to westerners, and says he wants to co-operate more closely with provincial premiers. Responding to noisy opinion in Alberta, he has agreed to consider replacing the archaic, appointed Canadian Senate with an elected body that might better represent regional interests. Putting his money where his mouth was, he last week announced a generous C$995m ($750m) federal bail-out for (mainly western) cattle producers hit by last year's mad-cow scare.

Mr Martin claims that the cash is motivated by need, not by politics. Perhaps. Canadian elections tend to be decided in populous Ontario and Quebec, which together command most of the parliamentary seats. Hence all the attention governments lavish on them. But the Canadian right is now re-united under the Conservative Party—whose new leader, Stephen Harper, is an adopted westerner—and seems likely to make big gains in Ontario in the election expected in June. So, pundits and psephologists argue, the Liberals now need to win in the west.

That might be feasible, were it not for a scandal reminiscent of sleazy episodes under previous Liberal regimes. In February, a report disclosed how a government publicity drive, concocted under Jean Chrétien, was abused to funnel C$100m to advertising firms linked to the Liberals. Mr Martin has been scrambling to distance his administration from its predecessor—firing tainted officials and setting up an inquiry—and to deny any involvement while he was minister of finance. But once again, as Phil Resnick of the University of British Columbia puts it, “people out here are asking, ‘Why should I trust those bastards?'”

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Mexico's presidential race

The first sombrero in the ring

Apr 1st 2004 | MEXICO CITY
From The Economist print edition

An early contender for Vicente Fox's job

Get article background

AS CAN happen when governments bore the media, Mexico's pundits have taken to obsessing about the next presidential election (in 2006). The speculation has spawned a new discipline: Martology. Will Marta de Fox, wife of Vicente, the current president, run? But until this week this virtual campaign lacked any actual candidates.

Now Jorge Castañeda, once Mr Fox's foreign minister, has become the first to declare his presidential ambitions. Mr Castañeda has swagger and intellectual verve, but few of the other usual attributes of presidential candidates—such as a political party, staff and lots of money. Instead, he brandishes an idea, namely that the country's traditional politics are obsolete, and its three main parties "relics...of Mexico's closed, authoritarian past." His slogan is "We are many, awake Mexico", which is perhaps more emotive than Mrs Fox's "Let's go, Mexico".

Dan Lund, of Mund Americas, a consultancy, describes Mr Castañeda's run as "quixotic". Does he stand any chance at all? He could certainly do with borrowing a few populist tricks from his old boss, Mr Fox. Hitherto unknown in Mexico's shanty towns, since resigning from the cabinet last year Mr Castañeda has been touring the country to make his case. But even according to his own numbers, just 6% of voters are persuaded; other polls give him around 1%.

Nor is there much evidence that Mexicans are panting to dispose of the current party system. The Institutional Revolutionary Party, which ruled Mexico for 71 years until 2000, revived in the federal congressional elections last July. The main left-wing party, the Party of the Democratic Revolution, is currently mired in a corruption scandal; but Andrés Manuel López Obrador, mayor of Mexico City and its presumed candidate, is still hugely popular. Santiago Creel, currently the interior minister, is likely to be a strong contender for the ruling National Action Party ticket.

Mr Castañeda will probably generate more useful ideas—about institutional reform and human rights—than all the others combined. Unfortunately, that troublemaking vitality is exactly why he and the main parties don't get along.

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Cuba

Cuba's gulag

Apr 1st 2004 | HAVANA
From The Economist print edition

Fidel Castro's permanent revolution marches on

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A YEAR ago, Fidel Castro faced a decision. Cuba's fledgling democratic movement was becoming more vocal. After a partial recovery from a long slump, the economy had slowed again. In response, Mr Castro—in power since 1959—chose to lead his country not into the democratic future that it could almost glimpse, but back into its totalitarian past. A year on, he is still going backwards.

Last spring, while the world was busy with Iraq, kangaroo Cuban courts sentenced 75 dissidents to an average of 19 years in prison in secret, one-day trials. Encouraged by the United States and others, they had (among other “crimes”) organised a petition calling for more freedoms, and were found guilty of “conspiring with a foreign power to overthrow the government”. Concerns about their allegedly heinous prison conditions were not dispelled by this week's staged media visit to two Havana jails. Also last April, three men were precipitously executed after trying to hijack a ferry bound for Florida.

These charades of justice undermined the idea that Mr Castro could be reformed through constructive engagement. Since then, his control over Cuba has wound ever tighter. An attritional stream of propaganda pours forth from his official media, and he is busily moving the country back to a centrally planned economy, depriving state agencies and companies of most of the autonomy they had gained in the market-oriented reforms of the 1990s. Dozens of foreign businesses and joint ventures are closing under pressure from regulators. Cubans' access to the internet, and thus to the outside world, is being curbed.

Fourteen wives and mothers of the prisoners braved the secret police to march for clemency and commemorate their incarceration. But most of the families, and of those dissidents still at liberty—like most of the country—kept quiet. Nor have other governments proved much noisier or more effective, partly because of their own disagreements. Cuba's relations with the European Union hit an historic low after last year's crack-down, and improvement seems unlikely even in the absence of José María Aznar, Spain's outgoing prime minister and hitherto one of Mr Castro's loudest critics. Meanwhile, Mr Castro accuses America of plotting assassination and “regime change”. But a trickle of cash from trade and tourism, plus cheap Venezuelan oil, sustain his revolution.

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Correction: Colombia's presidency

Apr 1st 2004
From The Economist print edition

In our leader on Colombia's president ("Too much of a good thing", March 20th) we said that in 1991 a ban on re-election had been loosened to allow a president to seek a second but not consecutive term. In fact, that was the situation prior to 1991; since then, a president has been limited to just one term. Apologies.

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Afghanistan

Passing the hat round for the rebuilders

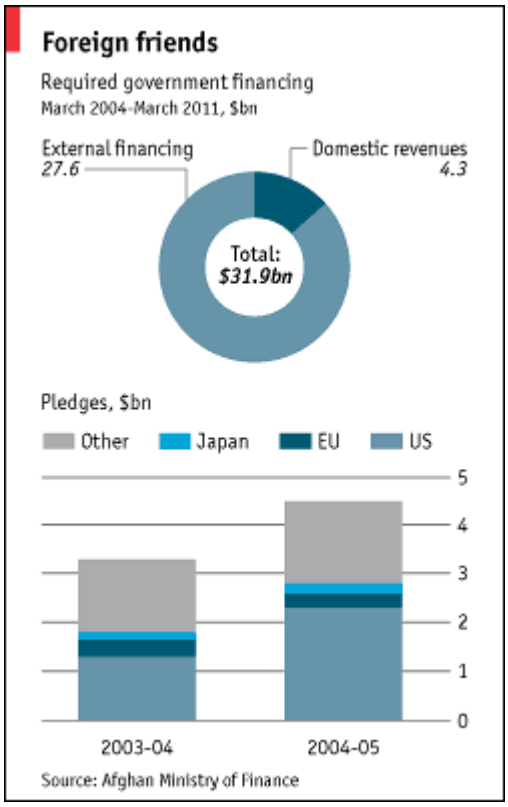
Apr 1st 2004
From The Economist print edition

Getty News

Money is good. But Afghans need security as well

AS THE good and the great congregated in Berlin on March 31st to wrangle over Afghanistan, there was much talk of money, and little of what to do about security. Yet, after months of denial, the Afghan government had just announced that its first elections would not take place in June—as originally laid down in the 2001 Bonn agreement mapping out the country's future—but in September. The delay was being blamed mainly on the lack of security.

Hoping to persuade their foreign benefactors to think beyond the immediate future, Afghan officials came to Berlin armed with a seven-year development plan—and a bill of $27.6 billion. Donors gulping at that figure might bear in mind that this means about $164 a year per Afghan. Although this is more than double the $77 received last year, it pales in comparison with the $256 per head contributed to East Timor after its conflict and the average $336 Iraqis should receive over the next four years. This year, 94% of the Afghan budget will have to be funded by foreign aid, as the central government will be able to generate only $300m in revenues. So in Berlin, donors—who have given out over $4 billion over the past two years—promised another $4.5 billion for this year, over 50% of which will be provided by America.



With a GDP per person of $190 and the average Afghan not expected to live much longer than 40 years, there is a lot that needs doing. Even if foreign benefactors open their wallets as wide and, just as important, for as long as Afghanistan would like them to, the government reckons that, in a decade from now, one Afghan out of five will still not have access to safe drinking water. If all goes according to plan, the government hopes that by 2016, Afghanistan will have turned into a “normal low-income country”.

Yet, boosted by relative calm after 20 years of conflict, by good rains and by foreign money, the economy is picking up. The IMF estimates that Afghanistan's economy grew by almost 20% last

year. Agriculture, which makes up over half of the legal economy and sustains 60% of the population, has started to recover from years of drought and fighting. Although Afghanistan still suffers from the destruction of its irrigation systems, the IMF reports that cereal production has gone up by 50% last year, following an 80% increase the year before. Foreign assistance has fed the construction sector, while trade has picked up. The government, which is banking on the private sector, is praised for its sound macroeconomic management, the introduction of a new currency, and new financial and investment regulations. A few foreign investors have even started to venture into the country. Two cellular telephone networks are operating, while a five-star hotel project in Kabul is betting on a continued flow of diplomats and international bureaucrats.

For many Afghans, however, planting poppies is still the only way to survive. Although prices declined last year, production keeps on rising, and income from opium is estimated at a hefty $2.3 billion. For the drug economy to be eradicated, says the government, the legal economy will need to grow at a steady 9% for many years to come.

In addition, lack of security remains a barrier to economic and political development. Large parts of the south and south-east remain inaccessible to aid workers, and lawlessness has contributed to slow voter registration. Out of an estimated 10.5m voters across the country, only 1.5m have been registered so far.

In the southern half of the country, coalition forces have been ramping up their efforts to mop up Taliban and al-Qaeda remnants—and hopefully to capture the elusive Osama bin Laden—helped by their Pakistani allies on the other side of the border. The United States already has 11,000 troops on the ground and has decided to send reinforcements. NATO, which is currently heading the International Security Assistance Force (ISAF) that does peacekeeping, is also looking for extra boots. Although its mandate has been stretched to cover areas beyond Kabul, ISAF has so far been unable to expand much outside the capital, constrained by the fact that few countries have been keen on contributing extra soldiers.

Everybody agrees that the ultimate solution is the creation of strong national security forces. Training of a new police force and a national army, under German and American auspices, respectively, has been going at a snail's pace, however. The army has been dogged by low recruitment and high desertion rates. Only 7,500-strong today, it is far from the 40,000 deemed necessary by coalition officers to guarantee the security of the country.

In the meantime, 45,000 fighters are still believed to be mobilised but unaccountable to the central government. A disarmament and reintegration programme has started. Local commanders' commitment to the process, however, remains doubtful. Donors have shown support in Berlin by reaching for their cheque books. But a clearer commitment to the country's security—by sending more troops and leaning on the warlords to disarm—is still needed.

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The Philippines

Vote-winning

Apr 1st 2004 | MANILA
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A convenient bust in the capital

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THE security forces had thwarted a plot by Islamic militants to plant bombs in shopping centres and trains in Manila on a scale comparable with the deadly bomb attacks in Madrid earlier in the month, said President Gloria Arroyo on March 30th. The authorities said they had arrested six suspects, and seized 36kg (80lb) of explosives. The government claimed this as a major victory against terrorism. But with a presidential election due on May 10th, opposition politicians were sceptical.

The authorities said they had a strong case against the suspects, although they gave few details. Officials said the detainees belonged to the Abu Sayyaf, a group of armed Filipino Muslims, who had trained with Jemaah Islamiah, the South-East Asian Islamic militant movement. Both groups have been linked with al-Qaeda. President Arroyo is a staunch supporter of America's war on terror, seeking American help in dealing with armed members of the Philippines' Muslim minority.

There are, however, some grounds for suspecting a degree of exaggeration. The Abu Sayyaf is capable of planting bombs, but it usually concentrates on making money by kidnapping or extortion, and it usually operates only in the southern Philippines. Besides, before the Manila bomb plot was uncovered, the government maintained that the security forces had reduced the Abu Sayyaf to a few score members.

In February, when a fire on a domestic ferry killed more than 100 of the 900 people aboard, the Abu Sayyaf claimed responsibility for planting a bomb on the ship. At the time, Mrs Arroyo poured scorn on this claim, saying there was no evidence that the fire was the result of terrorism. However, after the suspects' arrest in the Manila bomb plot, officials said one had admitted that he had personally planted the ferry bomb.

If the ferry fire was, indeed, the work of the Abu Sayyaf, it would be the worst bombing in South-East Asia since the attacks on the Indonesian resort island of Bali in 2002. And it would do severe damage to Mrs Arroyo's reputation for effectiveness. Even successful counter-terrorism can be a two-edged sword.

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Bombs in Uzbekistan

Cui bono?

Apr 1st 2004 | ALMATY
From The Economist print edition

There is no shortage of suspects

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AFP

Quick, find a scapegoat

ON MARCH 29th, two bombs exploded in Tashkent, Uzbekistan's capital, a day after one had gone off in the ancient city of Bukhara. The blasts were followed by gun battles in and around Tashkent between police and what the authorities claim were Islamic militants. More than 40 people have been killed. Suspects have been rounded up, and a wave of indiscriminate repression is expected.

President Islam Karimov, who rules Uzbekistan with an iron fist, has blamed the attacks on Islamic extremists. His officials have singled out Hizb-ut-Tahrir, a banned Islamist group whose goal is to recreate an Islamic caliphate which would include central Asia. The group has always maintained that its methods are peaceful and rejects the accusation. It also claims that the Uzbekistan regime orchestrated previous attacks to create a pretext for repression.

Inevitably, the question of a connection with al-Qaeda has also been raised. Uzbekistan is a staunch American ally in the war against terror and hosts an American air base. In 1999, an earlier wave of bombs in Tashkent were blamed on the Islamic Movement of Uzbekistan (IMU), another banned Islamist group believed to have links with al-Qaeda. Based in northern Afghanistan in the 1990s, the IMU was weakened by the loss of its bases and military chief during the Afghan campaign in 2001, but its political leader, Tahir Yuldash, was believed to be among the militants who escaped the recent Pakistani anti-terrorist offensive near the Afghan border.

The bombs in the capital were set off by suicide bombers, a first for the region. The explosions seem to have targeted the local police, widely hated and dreaded in Uzbekistan, and not civilians, as was the case in the terror attacks in New York, Bali and Madrid. Some analysts speculate that the bombings may have been triggered by the killing by the police of an old man at a Tashkent market, where one of the bombs was detonated the following day.

It is far too early to tell who is behind these attacks. To suggest an al-Qaeda connection would, however, be convenient for the repressive Uzbekistan regime. It would divert attention from the fact that it has given Uzbekistan's impoverished population plenty of reasons to turn violent. It could also help generate sympathy for Mr Karimov's regime, despite its appalling record on human rights and poor political and economic reform, during imminent reviews that could cost Uzbekistan assistance from the European Bank for Reconstruction and Development, and even, possibly, from the United States.

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Taiwan

Living with the enemy

Apr 1st 2004 | TAIPEI
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China may have to adapt

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AFP

Lien Chan: not waving but drowning

CHEERINGLY for Taiwan, the political storm surrounding President Chen Shui-bian's re-election by a thin majority appears to be subsiding. Even China, which despises Mr Chen, may well be relieved that Taiwan has not sunk into chaos; a condition which, as it reminded the island threateningly last week, might force it to intervene. But unless China's leaders begin to think more imaginatively about ways to accommodate Taiwan's aspirations, the Taiwan Strait will become an increasingly unpredictable flashpoint. There is little sign that China gets the point.

On March 28th, a few hundred supporters of the defeated presidential candidate, Lien Chan, and his running mate, James Soong, were moved by police from the broad avenue in front of the presidential palace in Taipei. This brought a peaceful end to a week of demonstrations in the area, which at their peak attracted hundreds of thousands of people. The protesters were calling for a fresh election, accusing Mr Chen of unfair tactics, especially of complicity in an allegedly fake attempt to assassinate him the day before the March 20th polls. They said the incident was contrived to attract sympathy votes.

Mr Chen has helped to ease the crisis by agreeing to a recount, which could occur in the next few days. He also allowed American investigators, invited by the opposition, to examine evidence relating to the shooting incident, including his wounded abdomen.

This week the American specialists said the evidence they had seen suggested that Mr Chen and his vice-president, Annette Lu, had indeed been shot—a point many opposition supporters had doubted. As long as the recount confirms their victory (by a margin of 0.2% in the first count), he and Ms Lu will probably be sworn in for another four-year term on May 20th.

What will this mean for relations between China and Taiwan? In an interview with the *Washington Post* this week, Mr Chen said Taiwanese people could not accept the mainland's “one China” principle and that if China insisted on Taiwan's acceptance of it, talks would be “impossible”. He said he would proceed with plans to introduce a new constitution in 2006 that would be enacted two years later. China fears the new constitution would make it more explicit that Taiwan is an independent country rather than a Chinese province. Mr Chen denied attempting to change the status quo. But he and China have very different views of what the status quo is.

Chinese officials know they have little chance of persuading Taiwan to accept any kind of political union. Their main aim is to deter a formal declaration of independence. But the island's fledgling democracy is fostering growth of what Mr Chen called a “Taiwan identity” among the public. Most politicians on the island now try to emphasise their Taiwaneseness. China, by trying to constrain this tendency, is only accelerating it. This week, in a move apparently timed to embarrass the re-elected Mr Chen, China announced the establishment of diplomatic ties with Taiwan's tiny friend Dominica. This leaves only 26 countries that recognise Taiwan.

Less helpfully still, China is flexing its muscles in Hong Kong, even though the territory is supposed to be a model for eventual reunification with Taiwan. On April 2nd, senior members of China's parliament were to start a five-day meeting in Beijing to “interpret” what the Basic Law, Hong Kong's post-colonial constitution, has to say on political reform in the territory. Their ruling is expected to clarify that Hong Kong cannot have more democracy without China's permission. And Taiwan's recent political tensions are hardly likely to make China better disposed towards the merits of democracy.

Privately, some scholars in Beijing with links to the government say a more sensible course for China would be to move gradually towards recognition of the Republic of China, as Taiwan still officially calls itself, and most importantly allow other countries to do so as well. They argue that this might at least help reinforce identity in Taiwan with the name ‘China' and curb the demands of some Taiwanese radicals for a change of name to the Republic of Taiwan. Sadly for Taiwan and the region's stability, such creative thinking is still a heresy in China.

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Australia

Iraq strikes again

Apr 1st 2004 | CANBERRA
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Has the opposition leader blundered?

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WITH an election expected later this year, and the opposition Labor Party powerfully invigorated under Mark Latham, its latest leader, the prospects for John Howard winning a fourth term as prime minister have been looking a bit dim of late. Youthful and dynamic, and deftly able to steer the political agenda towards issues such as health and education, where Labor resonates strongly with voters, Mr Latham has opened up a commanding lead for the party over Mr Howard's conservative coalition since he took over the leadership just four months ago.

That dream run may now be ending. Apparently emboldened by a sense that Australians wanted to put their military contribution to the war in Iraq behind them, Mr Latham said on March 23rd that, if Labor wins the election, he will bring the troops home by Christmas. There were echoes of the Spanish election on March 14th, soon after terrorist bombings in Madrid, and the pledge by José Luis Rodríguez Zapatero, the Spanish leader-elect, to withdraw Spain's troops from Iraq. Mr Latham went further: unlike Mr Zapatero, he did not attach as a condition for leaving the troops there the possibility of the UN taking more responsibility in Iraq.

He announced his plan in a Sydney radio interview—and was careful to hedge it with qualifications. Once Australia's responsibility was discharged after the handover to a sovereign authority in Iraq in July, he said, a Latham government would be hoping to have the troops back by Christmas: hardly revolutionary, given that Labor originally opposed the Howard government's despatch of troops to take part in the American-led invasion. Australia has about 850 troops in the Gulf region; Mr Latham's withdrawal plan involves only the 350 or so serving in Iraq.

Yet this was enough to provide Mr Howard with the chink in Mr Latham's armour that has eluded him so far. He went for it, accusing Mr Latham of “cutting and running”, and of “capricious policy-making on the run”.

Mr Latham hit back in kind, calling Mr Howard a politician at the end of his career. He said he had concluded after a briefing from a top intelligence official in January that the government's policy in Iraq was an “absolute fiasco”.

There were signs, however, that some of Mr Latham's colleagues were taken by surprise by Mr Latham's pronouncement. Kevin Rudd, the probable foreign minister in a Latham government, was quick to qualify his leader's remarks by saying Labor saw a strong moral commitment to Iraq's economic reconstruction—though there was “no correlation between making aid and having a military garrison there”. An opinion poll on March 30th suggested Mr Latham could have made his first political blunder; it reported 61% of Australians thought their troops should stay in Iraq “until the job is done” against 35% who wanted them “brought home now” (not, it is true, precisely Mr Latham's proposal).

Mr Howard has made Australian military excursions in the Pacific region, and further afield under America's umbrella, a hallmark of his eight-year premiership. He will use the row over the troops in Iraq to push the issues of security and economic management, on which Australians have consistently trusted the coalition government more than Labor, back to the forefront of the election campaign. But the dispute holds risks for both leaders.

Mr Howard may be right when he says the American alliance is “very central to the Australian psyche”. Yet he may also be overstating the degree. It is entirely probable that Australians want their troops to

stay in Iraq for the time being, mainly to help the Iraqis restore their lives rather than to shore up a relationship with Washington that many feel has grown a bit too deferential under Mr Howard.

For his part, Mr Latham risks being cast as a leader impulsively reacting to events. He made his “back by Christmas” remark days after Mr Zapatero's promise, and another opinion poll that showed 65% of Australians believed their country's involvement in the Iraq war had made a terrorist attack in Australia more likely.

The polls are sending mixed signals. While Mr Latham's rating fell five points, Labor overall increased its lead from eight to ten points. Either way, Mr Latham has opened up the biggest policy gulf so far between Labor and the government.

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Malaysia

So much for the new broom

Apr 1st 2004
From The Economist print edition

The “new” cabinet isn't

Get article background

ABDULLAH BADAWI did not become Malaysia's prime minister by taking risks. Indeed, the one big risk he has taken in a lifelong career in politics backfired rather badly. In 1987, he backed a rebel faction of the ruling party against the prime minister of the day, Mahathir Mohamad, and wound up spending several years in the political wilderness. Although Mr Badawi eventually managed to win back Dr Mahathir's favour and duly succeeded him last October as prime minister, he still seems reluctant to offend anyone. For proof of that, look no further than the new Malaysian cabinet, which was sworn in on March 30th.

Mr Badawi has just won his first election as prime minister, with a bigger share of the vote than Dr Mahathir ever secured. His promise to put an end to the corruption and cronyism of the Mahathir era secured him 90% of the seats in parliament. Yet for all his talk of change and reform, he mostly kept Dr Mahathir's appointees—including several accused of corruption—in the top jobs. Mr Badawi himself retains control of the ministry of finance and half of the newly-divided interior ministry, prompting charges that he is concentrating too much power into his own hands.

Mr Badawi was quick to point out that he had selected 14 new ministers. But he did so mainly by expanding the cabinet and by replacing those who had already announced their retirement. Only one or two of the old guard seem to have departed against their will. That leaves the new cabinet as flabby as it is drab: 71 members of parliament—one third of the entire body—now hold some post or other in government.

The prime minister wants to test newcomers as deputy ministers before giving them portfolios of their own, according to one of his advisers. He did promote Hishamuddin Hussein, a rising star, to education minister, a highly sensitive job in multicultural Malaysia that all future prime ministers, including Mr Hishamuddin's father, have held at some point. In addition, Dr Mahathir's old guard is supposedly being kept on shorter leashes. Even so, many Malaysians are disappointed. Mr Badawi might find that caution serves would-be Malaysian prime ministers better than actual ones.

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South Korea

South by south-east

Apr 1st 2004 | SEOUL
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Regionalism could be on its way out

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THE impeachment of President Roh Moo-hyun could well turn out to have a positive effect. South Korea may be ethnically homogeneous, but turf politics has historically divided the electorate along geographical lines. With the majority of South Koreans opposed to the president's removal, however, some analysts are suggesting that the impeachment issue could ease the deep-rooted regionalism that has dogged the country for decades. “For the first time ever, in some parts of the country”, says Kim Soo-Jin, a political scientist at Ewha university, “people have a real choice about who to vote for.”

The most pronounced regional cleavage is between Kyongsang in the south-east and the Cholla region in the south-west. Successive military dictators, including Park Chung-hee, originated from Kyongsang. In power, they funnelled a disproportionate amount of investment into the area, and people from Kyongsang were largely promoted over their south-western neighbours in public office and in government. Kyongsang developed into the country's industrial heartland. Cholla, on the other hand, was left out in the cold and its people stigmatised and disadvantaged, along with their long-term champion and Mr Roh's predecessor, Kim Dae-jung.

This largely politically-engineered divide became more visceral after the country's military leadership brutally suppressed a 1980 rebellion in Kwangju, the capital of south Cholla. Following Mr Kim's victory in the 1997 presidential elections, the favouritism previously shown to the inhabitants of Kyongsang was replaced by the promotion of those who originated from Cholla.

Today, South Korea's political parties reflect this geographical divide. The Millennium Democratic Party (MDP), founded by Mr Kim, has traditionally had its stronghold in the Cholla region, while the conservative Grand National Party (GNP), which traces its roots back to South Korea's military dictators, has its support base firmly planted in Kyongsang.

The election in 2002 of Mr Roh was heralded by some as a welcome easing of regionalism. Despite Mr Roh's origins in Kyongsang, Cholla's voters gave him their backing. Ironically, he performed rather well everywhere except on his home turf.

Mr Roh's acrimonious defection last year from the MDP and the crisis over his impeachment have further complicated the regional picture. Nationwide, seven out of ten South Koreans say they oppose the impeachment. In the legislative elections, due in two weeks, the desire to punish the parties responsible for the impeachment could well override traditional regional loyalties. The MDP, which was the driving force behind the impeachment bid has seen its popularity plunge in its traditional stronghold of Cholla.

In the shifting sands that pass for South Korean politics, support for an issue or a manifesto, rather than loyalty based on regional ties, would mark a welcome change. Caution is advised, though: old enmities die hard.

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Japan

Kansai comeback

Apr 1st 2004 | KYOTO AND OSAKA
From The Economist print edition

How one region's brighter outlook might augur well for Japan

A YEAR ago, the Kansai region was reeling. The area encompassing Kyoto, Kobe and Osaka, three of Japan's greatest cities, is the nation's second-largest economic block, and the main cultural and economic counterweight to Tokyo. On its own, the Kansai would be among the world's ten biggest economies, smaller than Italy's but bigger than Spain's or Canada's. More than a decade of economic torpor, and a vicious national downturn in 2001, hit the region especially hard, however. So recent hints of a revival here, driven by booming exports to China and the rest of Asia, highlight the tests that Japan as a whole must pass if its recent recovery is to grow into something more lasting.

Stretching roughly from quiet Mie, Tokushima and Wakayama prefectures on the Pacific, to rural Fukui prefecture on the Sea of Japan, the Kansai hosts a wide range of basic and high-tech industries, along with some of Japan's finest universities and research parks. The region's strengths could not protect it, however, from Japan's long downward spiral of shrinking confidence and stagnating demand. Locals in Osaka, the regional hub, have long lamented the “double hollowing out” that sent factory jobs to other Asian countries and office jobs to Tokyo.

One of the most heartening recent trends, therefore, has been a much brighter outlook for employment. The unemployment rate in the Kinki area, another name for the Kansai but excluding its rural bits, was 6.0% in February, down from 7.2% a year earlier. That is still a percentage point above the national average; but the gap has halved over the past year. Moreover, in the year to February, the number of job openings for every ten applicants rose from five to seven. In Osaka, there were 7.8 openings for every ten job seekers, topping the national average for the first time since 1980. Fewer bankruptcies have clearly helped. The number of firms going bust fell by 10% in 2003, and a further 19%, year-on-year, in January and February.

Japan's export boom has clearly been great news for the Kansai, since digital electronic devices—such as DVD players, mobile phones and digital cameras—have enjoyed strong global demand. Osaka alone is home to three of Japan's best-known electronics firms: Sharp, Sanyo and Matsushita (maker of the Panasonic brand). Kyoto boasts an impressive array of smaller high-tech firms, making materials and components for the global electronics industry—including all of those new factories in China. And a slew of material and equipment firms have been building new plants in relatively rural Mie prefecture, to accompany a cutting-edge Sharp factory that makes flat panels for televisions.

As with the rest of Japan, however, the big question now facing the Kansai region is whether it can translate all of this export activity into stronger confidence and resurgent local demand. Optimists are hoping that the improving jobs market, after so much previous bad news and anxiety, will give a disproportionate boost to consumption, as those who are still employed conclude that they have survived the last big round of job cuts, and thus can now afford to spend more freely. It will be a while yet before any such rebound shows up clearly in official consumption figures, either locally or nationwide. There are anecdotal signs, however, of a more relaxed mood.

Start with lunch. In Osaka's central Honmachi-Shinsaibashi business district, the trend in recent years has been towards ever cheaper restaurants for yen-pinching office workers. Set-lunch prices dropped from over ¥1,000 (around $10) to ¥800, before the area gave way to a host of ¥600 eateries. Since late last year, however, three new restaurants have opened in the district, and office workers have been eagerly turning up for lunch at prices over ¥1,000.

Whether or not tastier lunches are the reason, fitness-club memberships also seem to be on the rise, according to Kenji Nishida of the Osaka Chamber of Commerce and Industry. One of Japan's biggest

fitness chains, Tipness, says it plans to open three new clubs in Osaka and neighbouring Hyogo prefecture, its first in the Kansai region in over two years.

Kansai residents also seem more sanguine about property. Land prices are now cheaper than those in Tokyo by a third; and after 13 years of deflation, residential buyers in some parts of the Kansai are behaving as though the market bottom may not be too far off. In central Osaka, for example, empty office buildings are being replaced with flats, for which buyers have been easy to find.

Strong demand for centrally located living space has been the trend in Tokyo for the past few years—one of the clearest signs that capital-dwellers have been cheerier than the rest of the country. If that sort of optimism takes hold in the Kansai, it will be good news indeed.

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Arab democracy

Freedom calls, at last?

Apr 1st 2004 | CAIRO
From The Economist print edition

There's little political or even economic freedom at present, but the Arabs are starting to demand it

WHEN Tunisia cancelled a planned summit of Arab leaders it was to have hosted this week, the move's abruptness was not the only surprise. The Tunisians sniffed that they were scrapping the meeting because some of those invited didn't like an agenda that included a pledge to “consolidate democratic processes, protect human rights, and enhance the role of women and civil society”. The surprise lay in the fact that such reforms were on the agenda at all. There was also irony in the fact that Tunisia, one of the world's quieter but more complete dictatorships, should be posing as a champion of freedom.

There is a different word for it in every Arab country, but the principle is much the same. When Algerians speak of *le pouvoir* (power), Saudis “the family”, Egyptians *al-hukm* (“the decision”) and Lebanese their “political elite”, all describe a tight circle of people linked by shared background and common interests, who have monopolised power for as long as anyone can remember. But this enduring construct, which may be described as *“l'état, c'est nous”*, is coming under increasing strain.

A wave of democratisation is not yet washing across the region (see table). The Arab League's 22 states remain the most uniformly oligarchic slice of the world. Not a single Arab leader has ever been peacefully ousted at the ballot box. Even sub-Saharan Africa does a lot better: there, no less than 18 regimes have bowed out, at the voters' behest, since 1990. Yet Arab countries face an unprecedented convergence of internal and external challenges that are likely to prompt sweeping change in the coming decade.

A league table of democracy in the Arab world*

Score: 1=dismal, 10=perfect

	Political freedom†	Rule of law‡	Religious freedom§	Press freedom	Economic openness**	Women's rights††	TOTAL
Morocco	4	6	6	6	7	6	35
Lebanon	4	4	6‡‡	6	7	7	34
Iraq	4	1	7	7	8	5	32
Jordan	4	6	6	3	7	6	32
Qatar	3	6	4	4	8	6	31
Bahrain	3	6	4	3	8	6	30
Kuwait	4	6	4	6	6	4	30
Palestinian Territories	4	2	5	5	7	7	30
Tunisia	1	3	9	1	7	8	29
United Arab Emirates	1	6	4	3	9	6	29
Oman	2	6	4	1	7	6	26
Yemen	4	3	4	6	5	4	26
Egypt	2	4	4	3	5	6	24
Sudan	3	1	2	5	7	3	21
Syria	1	2	8	1	1	7	20
Algeria	3	2	4	3	2	4	18
Libya	1	2	4	1	2	5	15
Saudi Arabia	0	3	0	2	7	1	13

*Excludes the Comoro Islands, Djibouti, Mauritania and Somalia
†The right to vote in fair elections, oust rulers from office, form political parties
‡Respect for human rights, independence of judiciary, access to speedy justice, humane treatment in prison
§Freedom of worship, freedom from state intervention in religion and from religious intervention in state affairs
**Freedom to invest, freedom from bureaucratic control and corruption ††Level of political, economic and social equality
‡‡Lebanon scores highly for general freedom but low on separation of religion and the state because political power is allocated along sectarian lines

Source: *The Economist*

There are many reasons why this region has proved unusually resistant to popular empowerment of the kind that is transforming such places as eastern Europe, South-East Asia and Latin America. Many Middle Eastern states are still young. Their borders often reflect the imperatives of former European colonisers rather than local dispositions. So for the past 50 years, Arab states have devoted their energies to nation-building, an exercise that was seen to require political centralisation, the forced mobilisation of resources and the fabrication of new national identities to replace older affiliations.

This often meant, in practice, the creation of bureaucracies that became giant patronage networks; the appropriation, by the two-thirds of Arab countries that are rich in energy, of oil revenues by the central government; the suppression of minorities; and the promotion of a culture of obedience through a controlled press and education system. In many cases, such regimes were bolstered by the need to confront perceived external threats, for instance from Israel, or by the backing of foreign powers who wanted them as cold-war allies or energy suppliers. At the same time, a dramatically swelling population (the Arab League's has grown from 167m to 280m since 1980) and a flight from the countryside to the towns have disoriented societies and put yet another layer of dependency on the ruling class, whether it be princely families in the Gulf states or the close-knit associates of some despot in most Arab republics.

But now these equations are changing. Nation-building, in many Arab countries, is fairly complete. Few Tunisians or Egyptians or Omanis question their national identity or deny the prerogatives of their state. They would simply like more of a say in shaping policy. Even in Saudi Arabia, where regional and confessional strains persist, few citizens actually speak of seceding from the kingdom. Oppressive and bleak as the place may seem to outsiders, Saudis are by and large proud of their country. They are just rather tired of being told to kiss the royal hand that feeds them.

States versus nations

In other countries, nation-building, where the model presupposes uniformity, has been ineffective. Witness chronic unrest in Algeria's Kabylie region, recent rioting by Syria's 1m-plus Kurds, and the

simmering loathing of many Lebanese for both their own entrenched political dynasties and for the mix of confessional partisanship and Syrian malingering that props them in place. And then there is Iraq, brutalised by Baathist rule and now in danger of being torn apart by rivalries of every stripe.

In any event, nearly all Arab countries are failing to meet the expectations of their now highly urbanised, better educated and politically aware people. A study by the Arab League says that in ten years the region could have 50m jobless youths, up from 15m today. Economic growth and productivity are low, scientific innovation almost zero. Centralised bureaucracies have had roads and schools built but have failed to spread wealth, channel investment efficiently or foster critical thought. They are good at policing but bad at providing even-handed justice.

The outside world has come to see these failures as dangerous to its own well-being. The fact, for example, that 51% of Arab youths say they want to emigrate, according to the UN's 2002 Arab Human Development Report, alarms Europeans. Islamist terrorism to many minds is a product of Arabs' frustration with their sense of disempowerment.

Arabs themselves now admit that something has gone very wrong and needs fixing. Even their governments admit it. No fewer than five of them forwarded reform plans to the Tunis summit. Yet few Arab citizens take their governments' commitment, such as it is, terribly seriously.

So citizens have taken, with increasing urgency, to declaring that the lack of democracy is the real root of their troubles. In the past few months, from Libya to Syria to Saudi Arabia to Egypt, opposition groups have issued petitions demanding a strikingly similar set of changes. A recent gathering of 150 prominent Arab intellectuals in Alexandria issued an endorsement of these main demands that was so resounding it could have been drafted by Thomas Jefferson. It calls for constitutional reforms to enshrine the separation of powers, free elections, free speech, freedom to form parties, administrative transparency and respect for fixed terms of office.

The impact of such initiatives has, to date, been minimal. Even in those countries where democratic progress has been made, it has been halting and feeble. Bahrain, for example, ended emergency laws and held elections in 2002, but only for half of its legislature's seats. Its four main opposition groups now demand fuller freedoms. Saudi Arabia promised elections for half the seats on municipal councils last year, a big step in a country with no democratic institutions of any kind. But nothing has yet been done to arrange such polls, supposedly due this year.

Yet governments cannot for long ignore the mounting pressures. Egypt, for example, is rife with rumours that President Hosni Mubarak will soon scrap the country's notorious emergency law and allow new political parties. That would be wise. The country is ripe for change; opposition forces, long divided and demoralised, now share a platform calling for democratic freedoms. If Egypt, the most populous Arab country, moves, others may well follow. Arab leaders may put off meeting each other, but they cannot forever avoid a reckoning with their own people.

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Public opinion in Africa

Confused democrats

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From The Economist print edition

A useful attempt to find out what Africans think

IT HAS been a turbulent week in Africa. Coup plots were foiled in both Congo and Sudan, at least according to the governments who were the alleged targets. Côte d'Ivoire's security forces have been scything demonstrators. Uganda's were accused of torturing dissidents with nail-studded clubs.

The most positive spin one can put on all this is that wars and coups are rarer than they once were in Africa, and that Africans are fed up with both. A new pan-African opinion poll*, conducted by the Afrobarometer Network, a consortium of African and American social scientists, has found strong support for democracy as the least bad system of government, and an abhorrence of violence as a means of resolving disputes. The poll was not perfectly representative: it was done in only 15 out of 48 sub-Saharan countries, and the pollsters understandably steered clear of war zones. Nonetheless, it is probably the most comprehensive attempt yet to find out what Africans think.

Three-quarters of respondents said that violence for political ends was never justified, even if those ends were just. Only in four countries—Mozambique, Uganda, Cape Verde and Namibia—did a quarter or more approve of such violence; three of these places are ruled by armed liberation movements that are still popular.

According to the poll, 77% of Africans disapprove of coups, 76% reject dictatorship and 67% object to one-party rule. Only 13% think that “in some circumstances, a non-democratic government can be preferable” to a democratic one. A further 22%, however, were not sure or thought it made no difference to ordinary folk like themselves. And even in South Africa, the richest and most sophisticated country in the sample, a surprisingly high 20% of respondents thought that opposition parties should be barred from standing for office.

Economically, Africans tend to be statist but confused. They think the government should buy their crops, they favour trade barriers and they don't like to see bureaucrats sacked. But their answers are sometimes contradictory. For example, 59% agreed that the government should plan “the production and distribution of all goods and services”. At the same time, however, 69% thought that individuals should “decide for themselves what to produce and what to buy and sell”.

How are African views changing? Afrobarometer carried out a similar, 12-country survey in 2000-2001. On most issues, Africans seem to have become a shade more liberal since then. In specific countries, however, moods have swung wildly. For example, 84% of Nigerians were satisfied with the state of their democracy in January 2000, not long after the end of military rule. Last year, this had plunged to 35%, as elected politicians have proven no less corrupt than their predecessors. At this weekend's local elections, some 50 people were murdered. Nigeria's information minister said the voting had gone well.

*www.afrobarometer.org. The countries surveyed were Botswana, Cape Verde, Ghana, Kenya, Lesotho, Malawi, Mali, Mozambique, Namibia, Nigeria, Senegal, South Africa, Tanzania, Uganda and Zambia.

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Iraq

The joys and irritations of indirect rule

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After the Americans hand over at the end of June, they will continue to call many of the shots

IN THE ten months since Saddam Hussein fell, Iraq's health ministry had been a paragon of Christian-Muslim harmony. The Pentagon appointed Jim Haveman, then director of an American missionary group, as a special adviser in the ministry. Behind the scenes he pulled strings. The minister, Khudair Abbas, a leading figure in the Dawa party, which aspires to a Shia Islamic state, seemed happy. “We have a wonderful relationship,” he insisted.

Now the tables have turned. This week, America's proconsul in Iraq, Paul Bremer, gave the health ministry its independence. After a short speech, he walked out of the building, possibly for the last time, beneath a black banner proclaiming the inauguration of “Hussein's Revolution”, this one after the Shias' favourite saint. A foretaste of things to come when the Americans hand over power, as they have promised, on June 30th? Shia triumphalists seem to be flexing their muscles. At the gates to Mustansiriya University, hitherto the capital's most emancipated, they now bar entrance to girls and female lecturers wearing “unseemly” trousers or tank-tops.

AFP

Foul fellows of Fallujah

But while Mr Bremer says the health ministry is readiest to be handed over, others think it a poisoned chalice. Mr Abbas has five telephones on his desk but none can call outside the ministry. With no landline access to hospitals, the centralised distribution of medicines is faltering, and drugs are in short supply. Mr Abbas says emergency stocks worth $15m are on the way, but, despite the corruption that undermined the UN's oil-for-food programme under the old dictatorship, Iraq did get medicine worth some $250m a year. If there are epidemics this summer, Mr Abbas, not Mr Bremer, will be blamed.

But in other ways the Americans are seeking to cement their presence beyond the June 30th deadline. In recent weeks, Mr Bremer has begun appointing a host of Iraqis to new posts whose tenure will last into the planned 18-month transitional period and beyond. He slipped a “status of forces” agreement into the “transitional administrative law”, as the interim constitution is known. So Iraq's security forces will go on obeying a multinational force, led by the Americans, throughout the transition. An American-appointed security adviser, due to serve for five years, will oversee Iraq's security.

Mr Bremer is also nominating a bevy of general inspectors, one for each ministry, to sniff out corruption. And he has set up a host of unelected bodies, whose members he will appoint for up to four years, to oversee various affairs of state. A media and telecoms commission, expected to regulate the airwaves, will erode the telecoms minister's power. “When I write [to the ruling Coalition Provisional Authority], they never respond,” he complains.

Less than 90 days before the formal American handover, Mr Bremer is growing impatient. Most of his decisions make sense but some leave a bad taste in the mouths of the many Iraqis who want to run the show themselves. Members of Iraq's 25-strong Governing Council, appointed by the Americans after the invasion, fear they are being reduced to mere advisers. Some threaten to scrap Mr Bremer's edicts as soon as he goes.

But their irritation is nothing compared to that of the country's leading Shia authority, Grand Ayatollah Ali Sistani. After ordering his immense following into the streets, he thought he had persuaded Mr Bremer to agree that a constitutional assembly would be directly elected. But the interim constitution Mr Bremer signed with members of the council is full of caveats favouring the coalition. An aggrieved Mr Sistani has coated the country in posters denouncing the transitional law as illegitimate.

Members of the council are gloomy too. A national conference is meant to be called soon to choose a provisional government. The infighting among Iraqis is worsening. Even before he arrives, some council figures are denigrating Lakhdar Brahimi, the UN's special envoy charged with helping them and the Americans to choose an acceptable leadership. Recently the insurgents issued a *fatwa* condemning all members of the council to death.

Meanwhile the violence continues. This week, five American soldiers were killed by a bomb near Fallujah, a hotbed of Sunni insurgency west of Baghdad. In the town itself, four American contractors were killed when their cars were attacked. Their bodies were then burned, mutilated and publicly abused, and two of them hung from a bridge; at least one was dragged through the town behind a car. Such viciousness, and the television reportage of it, raised concern about a “Somali moment”, harking back to 1993, when the killing of 18 American soldiers and pictures of some of their bodies being dragged through the streets prompted an American retreat. The American administration, this time, immediately ruled out any such weak-kneed reaction.

Will the Coalition Provisional Authority (CPA) simply disappear? Not exactly. Some parts of its vast Baghdad compound will mutate into foreign embassies or consulates. Other branches may just change acronyms. For instance, the Project Management Office, a Pentagon outfit charged with disbursing some of the $18.6 billion of American cash earmarked for reconstruction and security, may keep premises to monitor contracts' implementation. In short, the new system in Iraq will be a mixture of Iraqi rule and indirect American rule. As a senior CPA person puts it, the hope is that indirect rule proves more positive than direct.

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Somalia

Coke and al-Qaeda

Apr 1st 2004 | MOGADISHU
From The Economist print edition

Reuters

Africa's most chaotic country is a bit calmer, but probably still home to anti-western terrorists

Get article background

THERE are two ways to run a business in Somalia. You can pay off the local warlord, not always the most trustworthy of chaps, and hope he will stop his militiamen from murdering your staff. Or you can tell him to get stuffed and hire your own militia. After 13 years of civil war, businessmen are increasingly plumping for the latter option, and their defiance has been rewarded. A veneer of normality is returning to the world's most chaotic country. An economy, of sorts, is beginning to thrive.

Somalia's first Coca-Cola bottling plant opened in the capital, Mogadishu, last month. That its carbon dioxide chambers are encased in mortar-proof reinforced concrete is almost beside the point. Somalis now have the opportunity to rot their teeth like anyone else, and that feels good. Countrywide distribution will be smoothed by the presence of hundreds of experienced security guards, who are also responsible for protecting the odd foreign expert who drops in. Newcomers are encouraged to calm their nerves by firing off a few rounds or lobbing a hand-grenade shortly after arrival. “It really works,” enthuses a visiting Kenyan engineer.

Perversely, this renaissance has been made possible by Somalia's continuing fragmentation. There is still no proper central government but, where once there was only a handful of warlords, there are now at least 24, and that is only the serious ones. With smaller fiefs to pillage, few can now afford the $100,000 or more that it costs to wage a six-hour battle, so such battles are less common. This is what passes for peace in Somalia, and it is enough to tempt many homesick exiles to return. They bring money as well as skills and contacts. In the past few years, hospitals, schools, businesses and even a university have appeared.

In some ways, anarchy makes doing business easier. There are no formal taxes—given how heavily-armed the average Somali is, these would be hard to collect—and no regulation whatsoever. But the costs of chaos outweigh the benefits. You can roar through a warlord's road block unmolested if you have ten gunmen in the back of your pickup, but you have to pay your gunmen. Nationlink, one of the country's three mobile-phone operators, employs 300 guards to protect 500 staff.

Everyone yearns for a restoration of stability and a proper government. A dozen attempts at negotiating a formal peace have failed. But since September 11th 2001, western governments, anxious to prevent al-Qaeda from using Somalia as a base, have pressed the warlords to make peace. On January 29th,

after talks in Kenya, they were rewarded with a power-sharing agreement providing for a 275-strong parliament that is meant to represent all the country's main clans and minorities.

Somalis are sceptical, however. Under the accord, warlords will choose the MPs, whose appointment will be confirmed by traditional elders. Who will pick the elders? Many worry that the warlords will. Some even argue that western support for the “peace process” encourages violence, by rewarding thugs with a share of power. Businessmen and other non-violent types have been excluded from the talks. “We have built schools, repaired hospitals and rebuilt roads. Yet no one is asking us what we think,” says Nationlink's managing director, Ahmed Abdi Dini.

Since the power-sharing agreement, the talks have stalled. Amid the acrimony, consensus was reached on one issue: the warlords, many of them barely literate, unanimously agreed to abolish a clause barring those without a secondary education from parliament.

Meanwhile, a decade after its botched intervention to protect food-aid deliveries in Somalia, the United States is back; this time, hunting for terrorists. American intelligence officers are working with two warlords to gather information about suspected al-Qaeda people in Somalia. Last year, an American commando raid on a Mogadishu hospital netted a Yemeni terrorist suspect, now in Guantánamo Bay.

Hussein Aideed, son of the warlord whom American troops tried but failed spectacularly to capture in 1993, was apparently paid $500,000 for 41 Strela missiles to ensure they did not fall into bin Ladenite hands. It is rumoured that other warlords have also been paid: enough, possibly, to restock dwindling weapons supplies. Your correspondent saw some impressive hardware, including four gleaming Howitzers, at the base of one of the warlords, Mohamed Qanyare Afrah.

Short tempers, tall stories

President George Bush's war on terror has won him few friends in Somalia. In 2001, America forced the closure of Somalia's biggest remittance bank, on the ground that it was used to launder terrorist funds, and froze the assets of al-Haramain, a Saudi charity with alleged terrorist links. This may have made life harder for al-Qaeda, but it also made it harder for expatriate Somalis to send money to their relatives back home, and led, among other things, to the recent closure of Somalia's biggest orphanage. Since America is offering Somalis nothing by way of compensation, they are furious.

“We must become terrorists,” says Abdulkadir Ahmed, a militiaman who claims to be training to fight America. With typical Somali bravado, he adds that: “Palestinians who do suicide bombings and just kill a few people are stupid. If I had to sacrifice my life, I would take between 1,000 and 7,000 Americans with me.”

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Italy's economy

Berlusconi's desperate gamble

Apr 1st 2004 | ROME
From The Economist print edition

The prime minister's last-ditch hopes of pepping up a moribund economy may come to nothing

Get article background

HIS back to the wall, desperately thrusting and parrying, the hero leaps for the chandelier. His assailants look on as he swings out of reach. Silvio Berlusconi may hope that he has pulled off a similar stunt with a pledge to slash taxes as a way of reviving both Italy's economy and his political fortunes. But his enemies, and even some allies, must wonder if he is more likely to come crashing to the ground.

On March 26th Italy's prime minister was firmly on the defensive. Several hundred thousand Italians took to the streets to ask what happened to the economic “miracle” he promised when he was elected three years ago. Trade unions said more than a million people marched in 50 demonstrations on a day of nationwide stoppages billed as a “general strike”.

The strike was called to protest against the government's pension reforms. But it turned into a general moan about the economy. It has become clear that Italy's stalled economy is an even more pressing concern for most voters than the government's unpopular reforms. The issue looks certain to dominate the regional and European elections in June, whose outcome may decide the fate of Mr Berlusconi's government. After all, the best—arguably the sole—reason for electing somebody with his doubtful political credentials was that, as a hugely successful businessman, he would know how to fire up the economy. Yet Italy is at a standstill.

That may have been forgivable so long as the rest of Europe, and indeed the rest of the world, was in the doldrums too. It is less so now that there is a global upswing, and even a glimmering of growth in Europe. In the fourth quarter of 2003, the euro area as a whole grew by 0.6%. Even Germany managed 0.2%. But Italy's moribund economy stagnated. The first quarter of this year may not be much better (though unemployment fell to 8.7% in January, down from 9.1% a year ago).

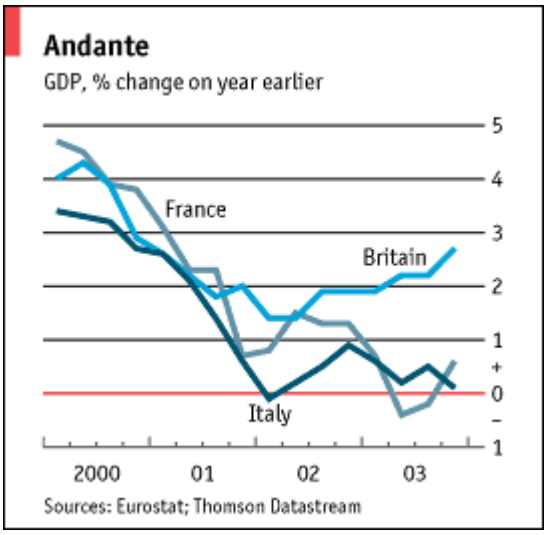
Mr Berlusconi's initial response to the strike was to renew a pledge he had made last year to slash the top rate of income tax from 45% to 33%. He then added another: to cut the number of public holidays. After protests from, among others, the Roman Catholic church, he finessed this into a plan to shift public holidays to the end or start of the week, to stop workers taking extra, unofficial days popularly known as *ponti* (bridges).

That would certainly raise output—a bit. Italians are not at the top of the international goof-off league

(12 public holidays a year, compared with 14 in Spain and 15 in Japan). But it is hard to see this as a serious economic reform. Lower taxes would have a far bigger impact. By mid-week Mr Berlusconi seemed to be staking his entire political future on them. If by 2006 he had not cut the top rate to 33% and, he added, the lower rate to 23%, he would not even stand at the general election that must be held by then. By the beginning of May, he intends to outline plans for spending cuts of €6 billion ($7 billion), to pay for a first round of tax reductions.

Mr Berlusconi's characteristically bold initiative wrong-footed his coalition partners as much as his enemies. His deputy, Gianfranco Fini, of the far-right National Alliance, who has been calling in vain for ministers to get their policies endorsed by the cabinet before announcing them to the public, was clearly irritated. He gave warning that his party's support for the government was conditional on the benefits not going only to the rich.

But can Italy afford tax cuts at all? In the long term, said the economy minister, Giulio Tremonti, who clearly believes in the Laffer curve, the government expects lower taxes to finance themselves by stimulating growth, raising incomes and so restoring the shortfall in revenue. But in the short term, even Mr Tremonti concedes that there is bound to be a big gap. And he has ruled out cuts in spending on health, welfare or public-sector pay.



Some margin for manoeuvre exists. Officials had already listed around €3.7 billion in savings that could be made this year, and another €8.5 billion next. Mr Fini's misgivings no doubt owe something to the fact that the biggest single category earmarked for the axe consists of subsidies for the poor south, whence his party draws much of its support.

Mr Berlusconi wants to give away some €12 billion in tax cuts. But it sounds as if he is considering bigger budget deficits as part of the mix. He mused this week that busting the 3%-of-GDP ceiling imposed by the euro area's stability pact would “not be a capital offence”. Last year, Italy's budget deficit was 2.4%. But that was largely due to one-off measures. Without them, the figure would have been more than 4%.

Nick Eisinger, who monitors Italy for Fitch Ratings, sees the whole exercise as being “on a bit of a wing and a prayer”. He identifies two risks: “The spending cuts become difficult to implement, or the supply-side shock to the economy is not as big at the government hopes.” Vincenzo Guzzo, European economist at Morgan Stanley, reckons that, paradoxically, the effectiveness of the cuts could depend on keeping to the euro's rules. “If people perceive they are only being achieved with a higher deficit, they will think that they are not for good; and the risk is that additional income will be translated into higher savings and not higher consumption.”

Nor will lower taxes do much for deeper-seated flaws in Italy's economy which, some believe, are the underlying reason for its sluggishness. The country has too few big companies, too much regulation, poor competitiveness, and not enough investment in new technology.

Francesco Giavazzi, a professor of economics at Bocconi University, Milan, says that “the question [of Italy's growth potential] has been in the background for the last 30 years.” He argues that much of the Italian expansion since the oil shocks of the 1970s was down to reckless public spending in the 1980s, and a devaluation in the 1990s. With neither option now available, the faults of a structurally flawed economy are becoming starker. If this analysis is right, it will take more than a tax give-away to solve Italy's economic problems.

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Romano Prodi

The re-entry man

Apr 1st 2004 | ROME
From The Economist print edition

If the commission president wants to play Italian politics, he should resign

AP

Prodi's left-handed intervention

Get article background

IT HAPPENED to be this week, but it could have been any recent one. The newspaper headline said “Prodi tells Rutelli: Fassino to be spokesman”. The story reported a meeting in Strasbourg “of more than an hour” at which Romano Prodi, president of the European Commission, laid down the law to Francesco Rutelli, leader of one party in Italy's centre-left electoral alliance, about who should do what.

It was the umpteenth sign that, when it comes to conflicts of interest, Silvio Berlusconi is not alone among Italian leaders. As commission president, Mr Prodi is meant to represent Europe as a whole, standing above grubby national politics. Two of his commission colleagues, Spain's Pedro Solbes and Greece's Anna Diamantopoulou, recently resigned to re-enter politics at home. This week, France's Michel Barnier returned from Brussels to Paris, to take over as French foreign minister.

Yet Mr Prodi continues to cling on to the office of president, and enjoy the prestige it confers, while leading the Italian opposition in all but name. He chaired the meeting that led to the founding of the new electoral alliance, gave the closing address at its inaugural rally, and runs it through meetings such as the one with Mr Rutelli.

This week, he went even further, treading into the contentious waters of Italian foreign policy. In a letter to *Corriere della Sera*, he set out the centre-left's stance on Iraq, where Italy has some 3,000 troops. If his group were in power, he wrote, “I don't hesitate to say the choice would be to put an end to [Italy's] intervention”. He called the war unjustified and illegitimate.

The Italian foreign minister, Franco Fattini, retorted that Mr Prodi's intervention was “illegitimate”. So long as he remains commission president, it is certainly unacceptable.

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France's reshuffled government

Sarkozy's moment

Apr 1st 2004 | PARIS
From The Economist print edition

President Jacques Chirac appoints a new clutch of ministers

Get article background

IT HAS become an unceremonious tradition under the Fifth Republic for the French president to dump an unpopular prime minister. Georges Pompidou got rid of Jacques Chaban-Delmas; François Mitterrand booted out Pierre Mauroy, Michel Rocard and Edith Cresson. So it was to widespread surprise that Jacques Chirac reappointed Jean-Pierre Raffarin as prime minister this week, after the centre-right's worst electoral defeat for 16 years.

With just over 50% of the vote in the second round of regional elections, the Socialists, Greens and Communists won an absolute majority for the first time since 1988. Not since France's 22 regions were created in 1986, when the centre-right took 20, has the electoral map looked so uniform. This time, the left bagged all but Alsace and Corsica. No fewer than 19 members of Mr Raffarin's government were beaten, as was Valéry Giscard d'Estaing, a former French president, in Auvergne. As one Socialist said, “it was the electoral equivalent of a general strike”.

In the face of such a defeat, Mr Chirac's decision to keep his prime minister, and make do with a reshuffle, is a gamble. After the result, 54% of French people said they wanted Mr Raffarin out. The centre-right retains its huge parliamentary majority. But the theatre of French opposition is more often the street than the National Assembly. The left and its union friends will use any provocation to protest. The Socialists feel combative, and their leader, François Hollande, has been buoyed by the victory of his partner, Ségolène Royal, in Poitou-Charentes, Mr Raffarin's home region. A turbulent summer is promised.

Mr Raffarin insists that his new government will push ahead with reforms. But his new team feels made-over, not fresh. Many old faces remain. Two weak ministers, Luc Ferry at education and Jean-François Mattei at health, have been replaced by professional politicians: François Fillon, from social affairs, and Philippe Douste-Blazy, secretary-general of Mr Chirac's party. Michèle Alliot-Marie stays at defence. The biggest surprise is Dominique de Villepin, who swaps the foreign for the interior ministry. This does not reflect a change in foreign policy, which will pass into the safe hands of Michel Barnier, now a European commissioner. It may stem from Mr Chirac's desire to make Mr de Villepin a more rounded political personality now that Alain Juppé, his protégé, has been convicted of political corruption.

To present a more socially minded face, there is a new “ministry for work and social cohesion”, run by Jean-Louis Borloo, a former mayor of Valenciennes, whose easy grin lends him a usefully unpompous air. Elsewhere, the new team embodies political savvy and experience rather than freshness or reformism. With one exception: Nicolas Sarkozy's appointment to the finance ministry.

The hyper-energetic outgoing interior minister does not hide his presidential ambitions. He had hoped for the prime ministership, and may yet get it after June's elections to the European Parliament: another rout would surely spell the end for Mr Raffarin. The right's most popular politician, Mr Sarkozy has an uncanny ability to remain so despite his party's problems. Will finance finally floor him?

The finance ministry is not a natural place to gain political kudos. France is likely to breach the European Union's budget-deficit limit of 3% of GDP this year, for the third year running. With GDP growth forecast at just 1.7%, promises to bring the deficit below 3% in 2005 look thin. The biggest problem is the public health-insurance deficit, which may surge from €11 billion ($13.5 billion) this year to €29 billion by 2010. Any remedies—higher contributions, limits on reimbursements, higher prescription charges—will be unpopular. Indeed, Mr Chirac may be keeping Mr Raffarin on precisely as a fall-guy for a painful health

reform this summer.

Mr Sarkozy, however, has argued that reforms are poorly implemented because they are poorly explained. His instincts are summed up in the title of his 2001 book, “Libre”, in which he argues for free choice over matters such as working hours, for lower taxes and for reward based on merit. “He is a fiscal conservative and an economic liberal by French standards,” comments Jacques Delpla, at Barclays Capital. He supports France's wealth tax and the idea of strategic national champions. But, unlike Mr Chirac, he grew up politically during the Thatcher and Reagan era. He is not bound by the notion that France's heavy public sector is unreformable. “In today's world, it would be a great risk for France to think that it can remain a prosperous nation without the French making the necessary effort,” he wrote in his book.

While Francis Mer, the outgoing finance minister and a former businessman, was frustrated by his lack of autonomy, Mr Sarkozy is a more even political match for the interventionist Mr Chirac. Collisions are inevitable. Would Mr Sarkozy have rescued the Alstom engineering giant from bankruptcy? Will he take on the bloated public service, which one official calls “the only really poisonous animal in France”? But then that may be why Mr Chirac, his rival, has given him the job.

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Cyprus

Unity?

Apr 1st 2004 | BÜRGENSTOCK, SWITZERLAND
From The Economist print edition

The Cyprus unification plan may be rejected by Greek-Cypriots

Get article background

THE idea of shutting up Greek, Turkish and Cypriot leaders in a Swiss ski resort to get them to agree to reunify Cyprus smacked of desperation. Kofi Annan, the UN secretary-general, had failed to pull off a deal last year. This week, he failed again—though by a narrower margin. After 48 hours of argument over details, only Tassos Papadopoulos, the Greek-Cypriot leader, rejected Mr Annan's latest plan.

The plan will still be put to separate referendums on April 24th in both halves of the island. But without Mr Papadopoulos's support, Greek-Cypriot voters are likely to reject it, dashing hopes that a reunited Cyprus can join the European Union on May 1st. At least it makes a change from the years when Rauf Denktash, leader of the Turkish-Cypriots, blocked all deals. Mr Denktash, now 80, had run his fief since 1974, when Turkish troops invaded the north after a short-lived coup had tried to fuse Cyprus with Greece.

When the reunification talks resumed in Nicosia in February, Mr Denktash was as unhelpful as ever. But he decided against coming to the Swiss talks. Mehmet Ali Talat, the new Turkish-Cypriot prime minister, and his coalition partner, Serdar Denktash, who is more pro-European than his father Rauf, were anxious to make a deal. So was Recep Tayyip Erdogan, Turkey's prime minister, who is eager to polish his country's credentials in the hope of starting EU accession talks next year.

Mr Erdogan had persuaded the Turkish generals, formerly loyal to Mr Denktash, to back a settlement. Costas Karamanlis, Greece's new prime minister, was also keen to resolve the issue. So the chances for Mr Annan's plan to reunify the island as a confederation of two republics looked good. Under the plan, some 8% of the land would be given back to the Greek-Cypriots, reducing the Turkish-Cypriot share from 37% to 29% (see map). The Greeks would regain the port of Famagusta. The two states would largely run their own affairs, but the “United Cyprus Republic” would handle relations with the EU.

But with Rauf Denktash off the stage, Mr Papadopoulos emerged as the hard-liner. The deal fell apart over his demand for more land—four villages in the Karpas peninsula—in exchange for agreeing to the presence of more Turkish soldiers and settlers from the mainland than the Greek-Cypriots wanted. He also objected to the Turkish request for an extended transition period, written into EU law, to stop wealthy Greek-Cypriots buying up land for development in the north. On this point, he was backed by Mr Karamanlis, who otherwise kept his distance from the Greek-Cypriot leader, not least to protect his budding friendship with Mr Erdogan.

What next? A majority of Turkish-Cypriot voters will vote for the plan on April 24th, even though Rauf Denktash will campaign against it. But the Greek-Cypriots are likely to say no. That will mean that only the Greek-Cypriot republic joins the EU on May 1st. Mr Papadopoulos will be pilloried in Brussels; but he may feel that popularity at home matters more.

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NATO's enlargement

Apr 1st 2004
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AP

The eight guys perplexing George Bush are the prime ministers of Latvia, Slovenia, Lithuania, Slovakia, Romania, Bulgaria and Estonia, plus the secretary-general of NATO. This week, seven new countries joined the organisation: its biggest expansion, and the first to reach the former Soviet Union. Russia swiftly objected when four Belgian fighters landed in Lithuania to help patrol the skies of the new NATO country.

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Poland's prime minister

Quitting

Apr 1st 2004
From The Economist print edition

An unpopular Leszek Miller is leaving the stage

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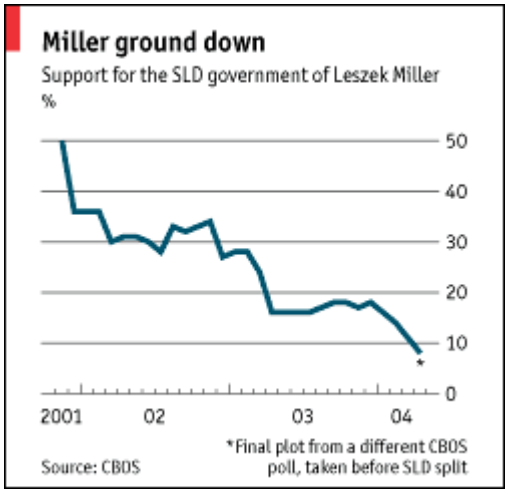

BY RESIGNING on May 2nd as Poland's prime minister, Leszek Miller may hope to go while his support is still high in single figures. He may even get a brief lift from Poland's entry into the European Union the previous day, allowing him to end a miserable two-and-a-half years in office on a slightly optimistic note. His ruling socialist party, the Democratic Left Alliance (SLD), hopes to cling on to power—but it will need luck. The SLD is a minority government already, a splinter group has weakened it further, and the opposition is baying for early elections.

Early elections might be the best outcome, were it not for the threat from Samoobrona (Self-Defence), a potato-throwing, bigoted and fiscally irresponsible farmers' movement that is one of Poland's two most popular parties. Under its tough-talking leader, Andrzej Lepper, Samoobrona has gone from 10% support in the 2001 election to over twice that in recent polls, thanks to its appeal to those whom Poland's economic reforms have left poor and angry. Samoobrona is neck and neck with the leading opposition party, the centre-right Civic Platform.

Mr Miller owes his fall to a walk-out by 22 of his party's parliamentary members. They left the SLD, successor to Poland's communist party, to start a new left-wing party called Polish Social Democracy. The SLD, already weakened by earlier defections, now has fewer than 200 of the parliament's 460 members. The defectors panicked over Mr Miller's plummeting popularity. Their party faced humiliating defeat in the next election, after winning the previous one with 41% of the vote.

Sleaze is partly responsible, as SLD bigwigs have been implicated in one corruption scandal after another. But voters have been alienated even more by the government's handling of the economy. Struggling against slow growth and high unemployment, Mr Miller has chopped and changed policies and ministers, only to end up with a very bad mix.

Thanks to his economics minister, Jerzy Hausner, Mr Miller found himself stuck with high public spending this year, much of it on wasteful social-security schemes that Poland does not need and cannot afford. Mr Hausner's next idea was to recoup this largesse through spending cuts and tax rises, which turned off the government's few remaining supporters.

Whoever takes over from Mr Miller will have to drink from this poisoned chalice. Constitutional limits on public borrowing make big spending cuts almost inevitable. President Aleksander Kwasniewski has kindly proposed his former economic adviser, Marek Belka, for the job. Mr Belka was Mr Miller's finance minister in 2001-02, but resigned after eight months, claiming “exhaustion”. For the past year he has been running economic policy for the American-led administration in Iraq.

Mr Belka will have two weeks after May 2nd to win a parliamentary vote of confidence. If he fails, parliament gets another two weeks to choose an alternative; if it fails, Mr Kwasniewski has a second try at naming a prime minister, before calling an election. An election that returned Civic Platform at the head of a new coalition government would be fine. The new Social Democrats might find a place too, or they might use a few years in opposition to take over as the main party of the left. But the aim for all responsible parties should be to contain Mr Lepper.

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Hungary

Spinning

Apr 1st 2004 | BUDAPEST
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The strange world of Hungarian politics

THE Socialist-led Hungarian government badly needs a spin-doctor. Its support is wilting as voters turn right. Polls give the opposition Fidesz over 50% support, with the Socialists on 32%. Kremlinesque endorsements by the party for the prime minister, Peter Medgyessy (not himself a party member), fuel rumours of plots against him. And aftershocks of the forint crisis in January still reverberate.

It is an odd moment for the Socialists to part ways with their Israeli public-relations supremo, Ron Werber, credited by Laszlo Kovacs, then party chairman, with winning the 2002 election. Mr Werber, a former communications chief at Israel's Labour Party, signed up for Hungary's Socialists after steering Romania's Socialists to victory in 2000. But he resigned when he found that Mr Medgyessy's office was courting two Washington-based lobbying firms. These firms will provide opinion research and advice until May 31st, for 14.5m forints ($70,000) apiece.

Lobbyists and consultants are a new development in central Europe's youthful democracies. The brave but unphotogenic dissidents who led the revolutions in 1989 have been shunted aside by pushy, smooth-talking pollsters and consultants. Their arrival is scant reward for Mr Werber, who dragged the Socialists' local branches, many mere ossified remnants of the former communist party, into the 21st century, teaching officials to speak in short, clear sentences.

Mr Medgyessy's officials deny that Mr Werber's departure and the American lobbyists' arrival are linked. They point out that Mr Werber was contracted to the party, but the Americans work directly for the prime minister. Anyway, Mr Werber may be lured back to run the Socialists' European campaign in June.

Relations between Mr Medgyessy and the party have, however, deteriorated. His bizarre suggestion that all four parliamentary parties (the Socialists and Free Democrats in government, Fidesz and the Democratic Forum in opposition) should field a joint list in the June elections, carving up Hungary's 24 seats between them, did not help. Fidesz dismissed it as a cover for the Socialists' poor showing.

Perhaps the Socialists should recruit Anettka Feher, a television presenter, for excitement. She appeared naked on screen to launch her European campaign, but is unlikely to win a seat for her Union Party.

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Charlemagne

A constitutional revival

Apr 1st 2004
From The Economist print edition

Despite its re-emergence, the draft constitution has remarkably few friends

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IN THEIR preamble to the draft European Union, the members of the convention that wrote it modestly included a vote of thanks to themselves. When European governments failed to agree on the document last December, it looked as if the conventioneers might not get their footnote in history after all. But now that the constitutional talks are on again, some feel that the real vote of thanks should go to the al-Qaeda terrorists who attacked Madrid.

The reasoning goes like this. The Spanish and Polish governments blocked agreement in December. But the bombs and their aftermath tipped the results of the Spanish election, and the new Socialist government immediately said it wanted a quick deal on the constitution. The Poles, fearing isolation, then shifted their position, saying they could accept some variant of the “double-majority” voting system that they had previously rejected. And, after Madrid, EU leaders are more determined than ever to demonstrate unity. Announcing that his colleagues will try to agree on the constitution by June 17th, Bertie Ahern, the Irish prime minister, who is chairing the negotiations, noted the “changed atmosphere and a new willingness to compromise.”

But before the idea that al-Qaeda acted as midwife to the European constitution gains too much traction, it should be pointed out that it is a myth. Long before the bombs went off, the Spaniards and Poles had let it be known that they were ready to compromise. Rhetoric about the need for all good Europeans to pull together has undoubtedly increased since the attacks. But all that really happened is that the odds of a successful conclusion to the negotiations shifted from, say, a 70% to a 90% probability.

A few things could still go wrong. Agreeing the details of the EU's voting arrangements will require tricky compromises on majorities and voting thresholds. The demand by small countries that they should all retain a member of the European Commission must be reconciled with the insistence of France and Germany that, in an enlarged EU, the commission's size should be limited. And there are Britain's famous “red lines”, where Tony Blair has insisted on retaining the national veto. These include tax, social security, foreign policy and criminal justice.

But even the British prime minister has now said that he is keen to get a deal. Some of his officials are less enchanted by the revival of constitutional talks. One grumbles that it has become “politically correct for all European leaders to insist that they want this constitution. But not many of them are really that keen.” This is a slight exaggeration: a few people passionately want the constitution. The European institutions in Brussels do, since they like more power. Federalists are keen, even though the text of what is strictly a constitutional treaty, not a constitution, falls short of their full agenda. It does deliver longstanding federalist goals, such as a legally binding Charter of Fundamental Rights, more integration on policies ranging from criminal justice to defence, and more powers for the European Parliament.

Among EU member countries, instinctive federalists such as Belgium and Luxembourg naturally like the new constitution. Germany too is pushing hard, because it knows that, by ending the system in which Germany had no more votes than France, Britain and Italy, in favour of a new population-based system, the constitution will increase German power. It would also make a symbolic point, marking the end of the period in which a tacit goal of the EU was the containment of Germany.

An unloved document

Yet there is a much longer list of countries that are indifferent or uneasy about the constitution—but do not want to incur the odium that would go with blocking it. Although Mr Blair is putting a brave face on things, agreement to an EU constitution will present him with a big political headache, as he struggles to fend off calls for a referendum. The French also have worries about demands for a referendum—and they harbour residual anxieties about an increase in German power. The Spaniards and the Poles may have decided to be “good Europeans”, but they know that the new deal will involve a loss of national clout. Now that Italy's chance of presiding over the deal on the constitution has gone (though it may still be formally signed in Rome), Silvio Berlusconi's government seems to have relapsed into indifference.

None of the ten new member states that are joining the EU on May 1st shows any great enthusiasm for the document—which is hardly surprising since Valéry Giscard d'Estaing, the convention's chairman, did his utmost to minimise their influence. Even the traditionally federalist Dutch are in a grumpy mood, partly because of the decision by France and Germany to ride roughshod over the euro's stability-pact rules on budget deficits. Frits Bolkestein, the Dutch commissioner, asked recently, “what is the value of an EU constitution if international treaties are broken as soon as they no longer serve the interests of one of the large member states?”

Dutch disgruntlement matters, because the Netherlands is one of the seven or eight EU countries that will hold a referendum on the constitution. If just one country fails to ratify the document then, legally speaking, it dies—though, as with the Maastricht and Nice treaties, a second vote could revive it again. Given the shrinking popularity of the EU everywhere, there is surely a good chance of a rejection somewhere. Gisela Stuart, a member of the steering presidium that ran the constitutional convention, recalls that Mr Giscard d'Estaing once urged his colleagues on with the words “this is what you have to do if you want the people to build statues of you on horseback back in the villages you all come from.” But last weekend, the people of the Auvergne in France refused to re-elect Mr Giscard d'Estaing to the presidency of their region. Peasants can be such ungrateful brutes sometimes.

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Muslims

Going after terror

Apr 1st 2004
From The Economist print edition

Muslim leaders and the government try working together

LAST November Britain's minister for Europe, Denis MacShane, unleashed his notoriously sharp tongue on the nation's 1.6m Muslims: they must choose between the “British...way” or the “way of the terrorist”. Muslim leaders hit back furiously, calling the minister “ill-informed” and tartly urging him to address the “causes behind terrorism” such as the woes of Iraq and the Palestinians. Mr MacShane's apology for “any misunderstanding” was brushed aside.

This week, as warnings of a possible attack on Britain by Islamists reached a crescendo, there were signs that things had changed. The government and Muslim leaders have apparently decided to put aside their differences and work together against the danger of terrorist attacks while there is still a chance.

On March 30th, London's Metropolitan Police announced that a huge anti-terrorist operation, involving more than 700 officers from five regions of southern England as well as their spookier colleagues, had just taken place. Eight British citizens, aged between 17 and 32, had been arrested on suspicion of involvement with terrorism, and half a tonne of ammonium nitrate fertiliser—which can be used to make bombs, though it has benign uses too—had been found in a west London warehouse.

The statement did not mention the detainees' ethnicity or religion, though it delicately observed that neither were the arrests related to Irish republican terrorism, nor were those held suspects in the Madrid bombings. It thus implied that they were British-born Muslims planning big operations against soft targets—anything from airports to pubs. But to pre-empt allegations of Islam-bashing, it was carefully recalled that “the overwhelming majority of the Muslim community are law-abiding and completely reject all forms of violence.” The announcement was designed to demonstrate that the police are neither fatalistic nor bigoted in the face of murderous extremism.

Similarly eye-catching was the initiative, a day later, by the Muslim Council of Britain, a broad umbrella group which can make a fair claim to speak for the whole community. Instead of complaining about heavy-handed police tactics, the council published an urgent appeal to Islamic clergy, scholars and community leaders: as well as correcting anti-Islamic prejudice, they should “liaise with the local police and give them the fullest co-operation in dealing with any criminal activity including terrorist threat.”

Although its release was accelerated because of the anti-terror swoop, the Muslim statement had been in the works since the previous Friday. Some of Britain's top clerics and community leaders held an emergency gathering at the Regent's Park Mosque in London prompted by the Madrid bombings, and by much depressing talk, including a forecast by Sir John Stevens, London's police chief, that an attack on Britain was “inevitable”.

Seen in the light of the council's previous grumpiness towards the police and the government, this statement marks a big change. According to insiders, several people at the mosque discussion argued “passionately” that Muslims must overcome any qualms about working with the police; and nobody disagreed. The council is now drafting a longer booklet that will urge Muslims to appreciate the freedoms they enjoy in Britain, and to act as responsible citizens; and Imam Abduljalil Sajid, a Brighton-based cleric, will be sending an “anti-terrorist” sermon to be read out in mosques all over the country.

But if the clerics are to rid British Islam of sympathy for terrorism, they have a long way to go. An ICM opinion poll for the *Guardian* in early March found that 13% of Muslims would regard further attacks on America by al-Qaeda, or similar groups, as “justified”, compared with 73% who thought the contrary. Some 64% thought that Britain's anti-terrorist laws were being enforced unfairly. Taken at face value, that would imply up to 200,000 potential sympathisers with anti-western mega-terror—and five times

that number who mistrust British justice.

It will be difficult for the police to guard against terrorism properly, while avoiding swelling the number of disaffected Muslims. Already young Muslims complain that they are picked on for stop-and-search operations. And if their hostility to the police grows, it will become ever harder for the old men who call themselves community leaders to bridge the gap between Muslim youth and the British state.

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Organised crime

From godfathers to networkers

Apr 1st 2004
From The Economist print edition

Can Britain do to its gangsters what America did to the Mafia?

IN THE 1970s and 1980s, American prosecutors used anti-racketeering laws to demolish crime families that had plied their trade for decades. The British government hopes to emulate this heroic effort. On March 29th, it unveiled reforms designed to tackle the “Mr Bigs” of the criminal underworld. Some of the proposals, such as the creation of an FBI-style Serious Organised Crime Agency, reflect careful consultation with police and intelligence agencies. Others, such as changes to the conspiracy laws, smack of desperation in the face of an intractable problem.

British organised crime is less flamboyant than its American counterpart, and less flashy than it used to be. Cockney gangsters no longer run big protection rackets; shoot-outs between would-be monopolists are rare. Yet evidence of serious crookedness is everywhere. Prices of illicit drugs continue to drop, suggesting that importers and distributors are becoming more sophisticated. Smuggled cigarettes are flooding the market, accounting for more than 15% of all sales—up from 5% in the mid-1990s. Formerly small-time scams such as people-smuggling and identity theft are now big business.

Those who toil against organised crime say that the old firms have not so much disappeared as embraced new business models. Even more than their legitimate counterparts, criminal operations have decentralised and outsourced, the better to take advantage of competition among suppliers. In some rackets—notably ecstasy and heroin smuggling—market forces have such free rein that Adam Smith's invisible hand is the only co-ordination provided. “We sometimes describe it as disorganised organised crime,” says Dave King, an advisor to the National Crime Squad.

There are still big players, but they do not sit atop pyramids of craven underlings. Power no longer derives from dominating a trade or a neighbourhood, but from connecting illicit operators with one another or with “overground” businesses where money can be laundered. Godfathers have given way to networkers.

For this reason, the proposals touted this week are unlikely to lead to mass trials. Making membership of an organised crime group an offence, and promising reduced sentences to informers—two of the proposed measures—were handy in America, in the days when criminal enterprises were run like corporations. They are less likely to work in today's Britain, where underground outfits resemble street markets. When there are no criminal groups of any size, laws against joining them will have little effect.

More promising is a proposal to admit records of telephone conversations into the courtroom. Britain is unusual in excluding wiretap evidence from criminal trials. The intelligence services have resisted letting prosecutors use it, on the grounds that their methods would be revealed. But the police argue the exception is perverse, and their view has prevailed.

Wiretap evidence is a particularly useful tool for cracking the loose networks that now dominate the criminal scene. While Mafia dons whispered instructions to lieutenants, today's Mr Bigs must keep in touch with a large network of suppliers and clients, who may be spread over several countries. That means telephoning them. Edward Kleemans, who does research for the Dutch Ministry of Justice, says that major drug busts are followed by apologetic calls from the major players. Some even send newspaper cuttings to prove that the delay is the result of police activity, and not the consequence of criminal behaviour, or anything like that.

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Immigration

Hughes fault

Apr 1st 2004
From The Economist print edition

The Tories claim a government scalp

Reuters

Blunkett is no longer behind Hughes

IT WAS, said David Blunkett, the home secretary, the worst day of his political life. The resignation of Beverley Hughes, his deputy in charge of immigration, following a campaign by the Conservative opposition and disaffected civil servants to expose flaws in the immigration system, shows how rattled the government has become over breaches of the nation's borders. It is also a tribute to how well the Tories have exploited the issue.

Ms Hughes's troubles began on March 7th, when Steve Moxon, a Sheffield immigration official, claimed that East European applicants were being waved through with minimal checks. Ms Hughes said that local officials were responsible, but this turned out to be wrong. A leaked memo from the head office of the Immigration and Nationality Directorate showed that senior figures had approved the measures in order to clear a backlog.

David Davis, the shadow home secretary, then revealed a series of e-mails and letters showing that Bulgarian and Romanian “entrepreneurs” were being granted visas over the advice of consular officials, who knew their applications were dodgy. The Home Office had ignored a string of protests from Bucharest and Sofia. Earlier this week, Ms Hughes claimed she had not known about this until Mr Davis's revelations. But when it emerged that the Labour chief whip had warned her a year ago, she had to go.

The government has tried to look tough over immigration. Ms Hughes and Mr Blunkett have cracked down on asylum-seekers, taking credit for a 41% drop in applications between 2002 and 2003, and hoped this would improve public confidence in the system.

That plan has fallen apart, for two reasons. First, the mood among those who process immigration claims has turned nasty. That branch of government has a reputation for being intractable, and it seems that foot-soldiers are miffed at political intrusions into their work. Whistleblowers are queuing up, according to Mark Oaten, the Liberal Democrats' home-affairs spokesman: “My office is getting e-mails from all kinds of sources, and I'm sure David Davis is getting even more.”

The other reason is that the Tories have worked out how to play the immigration card. The issue is a dangerous one for a party that is split between laissez-faire metropolitans and plain-talking folk in the heartlands. Talk of immigrants “swamping” the nation has in the past proved disastrous. By shifting the issue from toughness to managerial competence, Mr Davis has drawn blood from the government without harming his own party.

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The talking cures

Shrink to fit

Apr 1st 2004
From The Economist print edition

Brief therapies have the edge in an expanding market

IF PSYCHOANALYSTS were not so well adjusted, they would be gripped by anxiety. Although their brand remains strong—the Freudian couch is as much a cartoonists' staple as the desert island—they are steadily losing ground in the field they pioneered. Numbers of customers and practitioners are down, even at a time of burgeoning demand for the talking cures. To make matters worse, a wave of retirements looms: the 500 members of the Institute of Psychoanalysis have an average age of 65.

Of the many upstart groups muscling in on the therapy trade, two are faring particularly well. Integrative psychotherapists combine austere continental theories with a cuddly demeanour in the consulting room. Cognitive and behavioural therapists try to short-circuit destructive thought patterns. Both eschew long, horizontal self-explorations in favour of briefer, less mysterious treatments. Psychologically, as Phillip Hodson, of the British Association for Counselling and Psychotherapy, puts it, “they don't frighten the horses.”

Demand for the lighter talking cures is strong, accounting for much of the growth in provision. Andrew Samuels, a Jungian analyst who teaches at the University of Essex's Centre for Psychoanalytic Studies, says that the assertive, information-seeking consumer so beloved of health-care reformers is already a fixture in the consulting room. The newer treatments, which tend to promise improvement after a fixed number of sessions, appeal to picky customers; the older ones do not.

Supply is part of the story, too. In general, the more exalted the therapy, the longer and more expensive the training. At the top end, psychoanalytic trainees must pay for years of thrice- or five times weekly analysis before being let loose on someone else's subconscious. Humanistic therapists, by contrast, can get away with a weekly chat. When the superiority of psychoanalysis was taken for granted, the harder route seemed worthwhile; now it seems like masochism.

It may be, though, that the public health-care system exerts the strongest influence on the market. In the past 30 years, the NHS has come to rely increasingly heavily on cognitive and behavioural therapy, which is brief and (more importantly) good at proving its own effectiveness. Over the years, the health service has nurtured a growing army of practitioners, who are now muscling in on the lucrative market for wealthy phobics and depressives. The British Association for Behavioural and Cognitive Psychotherapies, which has grown from 200 members in 1972 to 5,500 today, reports that four-fifths of accredited members now see private patients.

Psychoanalysts and their therapeutic fellow travellers have been left flat-footed by the competition. But there are signs that they are getting their act together. Those who remain in the health service are concentrating on the most difficult cases: young, suicidal people who seem to respond neither to brief, light-touch treatment nor to drugs. For a profession associated with an exclusive clientele, this may seem an odd departure. But it is how Freud and his disciples started out.

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About sponsorship

Gay politics

Glad to be Tory

Apr 1st 2004
From The Economist print edition

Why the Conservatives are wooing gay voters

“I WANT to hear condoms, condoms, condoms,” David Bull, a TV medic, told a Conservative Party meeting in Westminster aimed at improving relations with gay rights groups. Afterwards, over coffee and biscuits—a ritual more associated with constituency scrabble tournaments than with heart-to-hearts about the party's sexuality—campaigners and candidates discussed the problems of “elgeebeetees” (lesbian, gay, bisexual and transsexual people). All this from the party whose rejection a couple of years ago of Michael Portillo, the front-running leadership candidate, was put down by many to his admission of a homosexual encounter; the party that, according to Ben Summerskill of Stonewall, a gay rights group, had a culture of homophobia in its headquarters. What has changed?

Public attitudes to gays, mostly. According to the British Social Attitudes survey, 70% of Britons thought homosexuality was wrong in 1985; by 2000 that had dropped to 47%. Moreover, there is a startling generational divide: 60% of people aged 60 and over still thought homosexuality was always wrong in 2000, but only 23% of people under 30 did. So homophobia is dying off.

The Tories are running to catch up. If they succeed, the electoral reward is twofold: they can compete better for the 5% of the electorate who are gay and also for tolerant young voters.

The party realised that, to appeal to gays, they needed some gay candidates, and to get some, they had to curb the selection panels run by ancient members of local associations. It has now banned both the veiled question gay candidates dreaded—“is there anything in your past that could embarrass the party?”—and pressure to parade a spouse as proof of soundness. The result is five gay candidates standing in the election next year.

Wresting gay voters away from Labour will be difficult, though. The government has just reaffirmed its credentials by introducing a bill giving homosexual couples similar property rights to heterosexual married couples. Also, the records of both Labour and the Liberal Democrats are more gay-friendly on the three totem issues—the right to adopt children and join the military, and the repeal of Section 28 of the 1988 Local Government Act—than the Conservatives'. Though Michael Howard, the Conservative leader, says he will vote for civil partnerships for gays, this may not erase recollections of his hardline voting record. “People have long memories for this kind of thing”, says Ben Bradshaw, a (gay) Labour minister.

Yet some argue that Conservatives and gays fit naturally together. Ivan Massow, a businessman who left the party when he became fed-up with its anti-gay bias, says the Tories, like the royal household, have “high camp” appeal that could make them attractive to gay voters. And though Mr Howard is unlikely to become a pink pin-up anytime soon, many gay men admit there's something rather marvellous about Maggie.

A homosexual following, as Mr Massow points out, could do the Tories a lot of good. Marketing men have labelled gays “early adopters”—people who latch on to fashions first, followed by the duller masses. If gays took to the Tories, they might even make them hip.

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Steel

Corus reborn

Apr 1st 2004
From The Economist print edition

Britain's biggest steelmaker is returning to health

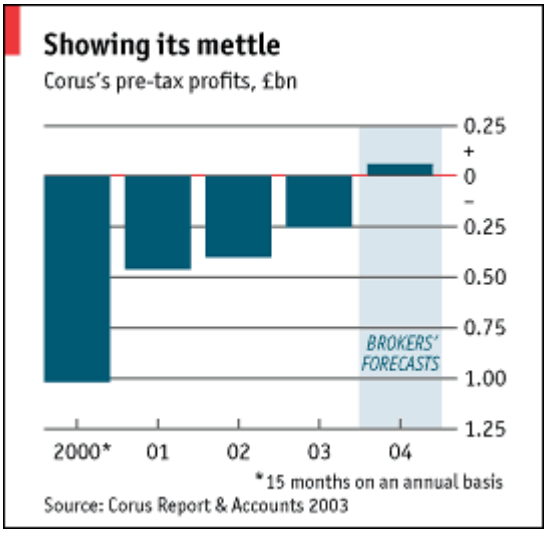
A YEAR ago, its shares dipped briefly below 4p on the London stockmarket. At their peak this March, they were above 45p. In 2000 the company lost £2.8m a day; last year, one-quarter as much; this year, brokers foresee a modest profit, after price rises of 5-8% in January, 10% on April 1st, and probably more to come. In place of repeated cuts, it plans to raise output by 2m tonnes to 13.8m by 2006. That is the miracle of Corus, successor to British Steel, privatised in 1988 and Anglo-Dutch since a merger with Hoogovens in 1999.

Not all the news is good. While two big plants at Port Talbot and Scunthorpe will be increasing production, a slightly smaller plant on Teesside will have to find markets abroad for its 3.4m tonnes or risk closure. The high-grade steels now made at two plants near Sheffield will be concentrated at one. And all the figures look puny beside those of 25 years ago, when British Steel made over 20m tonnes, had 150,000 employees—and would have gone under had not Margaret Thatcher sent a tough American to sort it and them out. But, when the big steel expansion seems to be happening in China, any growth in Britain is a surprise. The queues recently stretching from Port Talbot's Jobcentre for new steel jobs there were the first in decades.

Corus is not the only one with ideas. South Wales has lost 5,000 steel jobs since 2000. But now, as Port Talbot celebrates, a Spanish firm is working on plans for a big new plant at the Cardiff works that it saved from closure 15 months ago, and a Swiss-Iranian one is investing at Newport.

Why have things improved? Mainly because the world economy and demand for steel have. Even as China's own output soars, so do its imports. The United States in December ended the protective tariffs introduced in early 2002. At home, Britain's car industry is flourishing. So steel prices overall are increasing, and only part of the rise is being eaten up by higher input costs—iron ore, coal, shipping—caused by booming Chinese demand.

Corus's own private troubles have shrunk too. Its merger with Hoogovens brought it aluminium plants on the continent. These are modestly profitable, but it would love to sell them. It tried to in late 2002, but Dutch trade-union hostility blocked the deal. In the resulting unease, Corus got itself a restructuring plan and a new chief executive—Philippe Varin, formerly of Pechiney, the French company that had wanted the aluminium plants—to push it ahead. That may cost £250m, but last December, just as the American tariffs ended, Corus was able to raise £291m in a share issue. The share price soon rose sharply, as a Russian tycoon, Alisher Usmanov, pushed up his stake to 11%, amid talk that he might try to form a joint-venture with Corus in its Teesside plant.



At a humbler level, one of Corus's two blast furnaces at Port Talbot, hit by an explosion in 2001, was back at work early last year. And performance is improving at its big (6.4m tonnes) Dutch plant. But mere tonnage of crude steel is not Corus's measure of success. Its processing of the stuff has long since moved downstream: on many industrial estates, you'll see sheds whose steel cladding was rolled, galvanised and colour-coated for the developers by Corus. And of course it is moving upmarket. It does not produce reinforcing rods for builders' concrete, but makes steel frames for houses, hoping to see Britain go for the modular housing

familiar in mainland Europe. It has just announced a process for injection-moulding of polymer-coated steel items in a single step. That may not sell much steel—computer casing or mobile-phone covers don't need much—but the know-how is valuable.

None of this guarantees a bright future. When China's economy slows down, its steel mills will look harder than ever for export markets. World recovery is still fragile, and steel, like other commodities, sees roller-coaster prices. But at least the firm is back from the all-but dead.

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The Post Office

Six first-class and £10,000, please

Apr 1st 2004
From The Economist print edition

The Post Office has diversified into personal loans. Will it pay off?

FOREIGN currency, travel insurance, tickets to Disneyland, car tax, television licences, mobile-phone top-ups—not forgetting the stamps—are some of the products that the Post Office will sell you these days. A new one has now joined them: personal loans, with motor insurance and a credit card to come.

The reason for this new-found entrepreneurialism is simple: Post Office Ltd, which runs the counters for its parent, Royal Mail plc, last year made an operational loss of about £15m a month. And, by next April, the government plans to switch all benefit payments from cash at a local post office to electronic payment into any personal account. If all Britain's 13m benefit-receivers were switched, it would cost the Post Office 40% of its £850m-plus external turnover. Worse, for those outsiders who run nearly 16,000 of its 16,500 outlets, it means fewer people coming through the door. That could be ruin for the sub-postmaster who relies on old Mrs Jones to buy some butter and jam as she draws her pension.

Many small post offices are closing. A two-year programme to shut urban ones is well under way; by its close, in December, up to 3,000 will have gone. The government has pledged £150m a year to save rural ones, but their number too is diminishing. Yet, town and country together, some 14,500 offices will remain. To keep going, they must generate more turnover.

The Post Office has already diversified a lot. It is Britain's number one in foreign currency for people going abroad: over-the-counter at bigger branches, order online and pick it up later at smaller ones. It sells over 1m travel insurance policies a year. It has arranged with seven banks to let their customers draw at post offices from a current account; and with yet more if the account is one of the new “basic” accounts that the government is encouraging. And of course it has long sold National Savings products.

Yet personal loans are a big step, even with Bank of Ireland, already its partner in foreign exchange, as the 50-50 partner in the joint venture that will run the loans. The bank already does about 30% of its business in Britain, with over 5,000 staff, more at its subsidiaries—Bristol and West, and Chase de Vere, a financial adviser—than its own 24 branches. But it sees great possibilities in the Post Office's network: more outlets than all the banks and building societies combined, and 29m customers each week, enthuses Patrick Waldron, the Irishman heading the joint venture. He points to the success in financial services won by the postal organisations of several European countries: Germany's ten-year-old Deutsche Postbank, for instance, has profits of €500m (£350m) a year.

The loans do not look cheap: 7.9% on £10,000 (say) was this week's offer, even as a direct mailing from Direct Line talked of 6.2%. Not all borrowers go for cheapness, and with the cost of “payment protection” added the Post Office offer was indeed cheaper. But the real question is whether this is a good way of selling loans. The big successes of recent years have been achieved via mailing, telephone and the internet. The Post Office, too, will be selling its loans over the telephone and the internet, but using its network of little shops to publicise them.

Will this help? The Bank of Ireland thinks so, and it knows its business. Yet, seen from outside, this and other bits of diversification look suspiciously like a heroic effort from the Post Office to keep in being a network which does not make sense commercially. If Tesco had some 500 big stores and 16,000 corner shops, guess what Tesco would do.

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Redistribution

Running to stand still

Apr 1st 2004
From The Economist print edition

Labour isn't equalising

HE IS the most redistributionist chancellor since Lloyd George a hundred years ago, according to Robin Cook, a former foreign secretary. But try though he may, Gordon Brown is failing to curb the rise in overall income inequality.

The latest figures, for the year 2002-03, show that income inequality remains greater under Labour than under the 1979-97 Conservative governments of Margaret Thatcher and John Major (see chart). The finding is based on the “Gini coefficient”, a measure of the income distribution which rises as inequality increases. The small decline over the past two years is not statistically significant. Incomes are measured net of direct taxes but including benefits and tax credits, so the results take account of Mr Brown's budgets.

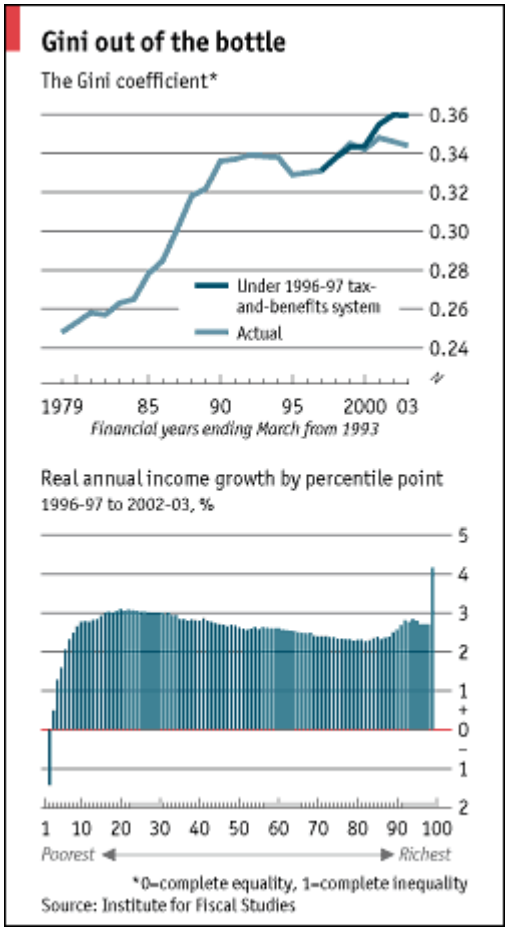
The chancellor's endeavours have not been all in vain. Without his redistributive budgets, income inequality would have increased a lot more. But the “Robin Hood chancellor”, as Robert Chote, director of the Institute for Fiscal Studies (IFS) dubs Mr Brown, “has had to run to stand still”. That's mostly because incomes at the very top of the income distribution have risen so fast.

Not that Mr Brown has espoused old Labour talk of reducing inequality. Instead he has striven to reduce poverty among children and pensioners. That goal leaves out people of working age without children, who comprise two-fifths of the population. Within this group, there has been no dent on the poverty rate—generally defined as the proportion of people living on income below 60% of the typical household's. But judged by his priorities, the chancellor appears to be making reasonable progress. The poverty rate among pensioners is now lower than in the rest of the population. And the number of children living in poor households fell by 200,000 in 2002-03.

The government has set a target to reduce the number of poor children from 4.2m—33% of all children—in 1998-99 to fewer than 3.2m by 2004-05. The decline of 200,000 in 2002-03 lowered the number to 3.6m. Additional spending on poor families since then puts the government on track to meet this goal, according to the IFS.

Stretching ahead are more ambitious targets, to halve child poverty by 2010 and to eradicate it by 2020. That latter objective might appear impossible, but some nimble draftsmanship has come to the rescue. The government now interprets the goal as “being amongst the best in Europe on relative low incomes”. In another helpful move, relative poverty will be based on income before rather than after housing costs. At a stroke, the new measure reduces the number of poor children in 2002-03 from 3.6m to 2.9m—23% of all children.

Even so, getting child poverty down from that 23% rate to between 5% and 10%, the current lowest rates in Europe, will be a long haul. Much the best way to get there is not through the chancellor's Robin Hood measures but by tackling the disparities in skills that are making incomes more unequal. As long as a fifth of Britain's adult population is virtually illiterate, the result will be high levels of poverty.



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Bagehot

Ambivalent? Moi?

Apr 1st 2004
From The Economist print edition

Tony Blair thought he could change Britain's relationship with Europe. It's not his fault he's failed

A FEW months after the last election, Tony Blair outlined what he described as the four strategic priorities for his second term. The first was to maintain a stable economy. The second was to reduce social division and inequality. The third was to improve public services. The fourth was to settle the argument over Europe in favour of constructive engagement and against Tory “isolationism”.

There are few complaints about the government's macroeconomic management and it has had some success combating poverty, if not inequality. Albeit slowly and patchily, public services are responding to a lot of money and a little reform. But, by his own lights, it is Europe that has to go down as the prime minister's greatest failure.

In the House of Commons this week, as he delivered his report on the European Council meeting in Brussels, there were hints of the old evangelism. However, what fired him was not the summit he had just attended or the prospect of reaching agreement on the constitutional treaty (it's a while since Mr Blair referred to it as a constitution), but the ferocity of Michael Howard's attack. Mr Blair's contempt for the Tories' position on Europe is genuine. He believes that Mr Howard is a peddler of dangerous myths and his promise that a future Conservative government would renegotiate the treaty is a fantasy.

What is somewhat harder to gauge is the state of Mr Blair's own enthusiasm for Europe these days. For someone who has often enough declared it his intention to resolve once and for all Britain's historic ambivalence towards Europe, the prime minister these days sounds pretty ambivalent himself. He still believes that a final resolution of Britain's place in Europe is entirely desirable, but he no longer knows how to achieve it or whether it is even possible.

He used to think it would result from joining the euro. Although it is less than a year since he fought a doughty rearguard action against Gordon Brown, the chancellor, to keep open that option in the current parliament, that seems awfully long ago. It is hardly Mr Blair's fault. The wretched performance of the French and German economies compared with Britain's and the near-farce of the stability and growth pact have helped destroy the possibility of a positive outcome. There is no reason why an unwinnable referendum should hold any attraction for the prime minister. The idea, once persistently touted within Downing Street, that Mr Blair believed taking Britain into the euro was essential to his legacy, is now rarely mentioned.

An alternative, as siren voices urge him, would be to use a referendum on the European constitution as the means of resolving Britain's ambivalence to Europe. As Mr Blair puts it, there is a clear choice between his aim of making a Europe of 25 nations work effectively and Mr Howard's willingness to renegotiate the fundamentals of British membership of the EU. He maintains that if that is the argument, he has no doubt who will win it.

In which case, why does the prime minister not call Mr Howard's bluff and hold a referendum? The first reason always trotted out is what Mr Blair calls “the elephant in the room”; namely Britain's chiefly Europhobic newspapers. The second is the fear that a referendum might monopolise the political agenda for the six months before the general election. Mr Blair is sensitive to accusations that he has spent too much time on foreign policy and not enough on domestic bread-and-butter issues. Even if he were confident of winning, the damage to the government's electoral prospects could be significant. For Mr Blair, sticking to the unheroic line that no referendum is needed to ratify a treaty of less consequence than either Maastricht (1992) or the Single European Act (1986) is politically a no-brainer.

Not much fun

But what Europhiles, who used to pin their hopes on Mr Blair, detect is not just an unwillingness to take risks for Europe's sake, but also a cooling of the prime minister's former ardour. They are right. Partly, it's Iraq. Although, at a practical level, relations with France and Germany are better, underlined by the three-country summit in Berlin five weeks ago, Mr Blair has not forgiven President Jacques Chirac for the deliberate sabotage of his attempts to secure a second UN resolution. And with the departure from the scene of José María Aznar, Mr Blair finds himself without kindred spirits when he attends European summits like the one last weekend. As a Downing Street insider observed: “He's a bit short of playmates at these things.”

Most of all, Mr Blair worries about what he describes as a coming together of the left and the far right in Europe, united in loathing both America and globalisation. During his visit to Spain last week to attend a mass for the victims of March 11th and to meet the new Socialist prime minister, José Luis Rodríguez Zapatero, he looked uncomfortable. According to one aide: “There was something not very pleasant in the atmosphere.” Mr Blair is hoping that the arrival of the ten, mainly Atlanticist, accession countries will improve things. It will need to.

Mr Blair's predecessor, John Major, seemed quite happy to become a peripheral figure in Europe. Mr Blair is not. Mr Howard may boast that he would welcome isolation if it is the price for defending Britain's interests, but that is not Mr Blair's way. More than ever, he believes it is important for Britain's voice to be heard in Europe, whether it is making the case for always working closely with America, pushing for faster economic reform or arguing for the next stage of enlargement, including the admission of Turkey.

But by defining Europe's priorities in those terms, Mr Blair reveals just how different Britain continues to be. Britain's ambivalence towards Europe endures because it is real and deep-rooted. It also happens to be personified in Mr Blair himself.

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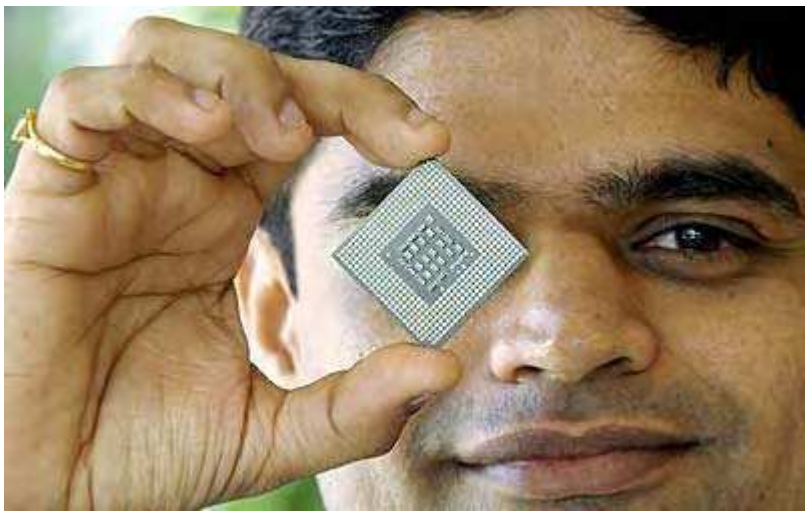
Research and development

Innovative India

Apr 1st 2004 | BANGALORE AND DELHI
From The Economist print edition

AFP



Please don't call it outsourcing

Get article background

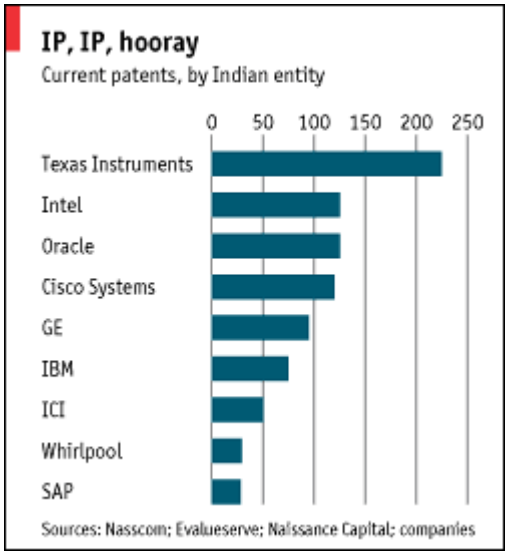
UNDERSTANDABLY, many Indians take umbrage at the wave of protectionist rhetoric engulfing the American election campaign. Not only do they point to the endless lectures they have received from Americans in years past on the benefits of globalisation and open markets. They also resent an insinuation underlying the debate over “outsourcing”: that all countries such as India have to offer is cheap labour and a telecommunications link. Just look, they say, at the extent of the high-end research and development (R&D) work being undertaken in India.

Or, rather, they say so in private. In public, conscious of western fears of the migration of ever more technically demanding and high-paid jobs, many Indians have recently concluded that the best strategy is not to draw attention to themselves. The ultimate American nightmare is not just about white-collar employment, but the loss of the country's great international advantage: the ability to innovate. So a veil of discretion is masking some of India's R&D achievements. Industry lobbyists are playing down this aspect of India's success. Some multinationals, such as IBM, are loth to discuss it at all. Others, such as Texas Instruments, boast that they “have increased design resources around the world”, but make sure to add that “this has been accomplished without transferring significant numbers of jobs to India”. Indian IT firms are stressing that, great as their contributions are, the real cutting-edge, innovative work is done in their clients' laboratories in America.

Some veterans of the Indian technology industry are truly sceptical about the potential of Indian R&D. Lakshmi Narayanan, chief executive of Cognizant, a New Jersey-based IT-services firm with big operations in India, argues that the country does not yet have the capability to develop its own intellectual property. So far, he says, R&D's contribution to overall growth is “minuscule”, and where multinationals, such as Cisco Systems and Nortel, have contracted work out to Indian services firms it has been in upgrading old products, not developing new lines. Satyam Cherukuri of Sarnoff, an American R&D firm, argues that, of the three requirements for developing an innovation-driven industry, India has two: the technical skills and access to capital. What is missing is an indigenous business model.

Patently obvious

Yet by the crude measure of patents earned by the Indian subsidiaries of multinational firms (see chart), a significant amount of innovation now stems from India. Last year, Intel's Indian subsidiary filed for 63 patents. Its president, Ketan Sampat, says that the 1,500 IT professionals employed by the firm in R&D in Bangalore are engaged in “engineering challenges as complex as any other project on the planet.” They use the fastest supercomputer in India (ranked as the 109th-most powerful computer in the world) and are divided into four product-design divisions covering ultra-wideband radio, enterprise processors, mobile and wireless chip-sets, and communications.



For Intel, which has a similar-sized R&D operation in Israel, and smaller facilities in Russia and China, the attractions of Bangalore are simple: the best climate in India and “very smart people”, who are technically well-educated and speak good English. D.B. Inamdar, the senior civil servant in the provincial government's IT department, says that some 140,000 IT professionals now work in Bangalore—about 20,000 more than in Silicon Valley. Some 50 colleges produce 40,000 more each year. Intel's approach is to hire and train college graduates, supplementing them with about 100 senior engineers, mostly (like Mr Sampat) returning expatriates.

Intel and others also point to the congenial “ecosystem” developed as technology companies have clustered in Bangalore. They give some of the credit to trail-blazing by Texas Instruments, which has been in India for almost 20 years (compared with less than five for Intel).

For SAP, a German software firm, the appeal of the Bangalore ecosystem includes the presence of its customers, its global partners and, crucially, some 3,000 engineers trained in SAP software on the books of Indian IT-services firms such as Wipro, Infosys and Tata Consultancy Services. SAP has 850 staff in Bangalore, a number likely to grow by 500 this year, but can, with a local phone call, quickly add qualified engineers for particular projects.

Wipro's boss, Vivek Paul, says that R&D is becoming “like the movies”. Firms, like film studios, are increasingly unwilling to keep expensive teams together between projects. For Wipro, providing firms with an alternative to doing R&D with permanent in-house teams has become a big business, accounting for one third of its $1 billion in annual revenues, and employing 6,500 people. It is probably the world's biggest R&D-services firm.

Its customers include all the big telecoms-equipment vendors (except Germany's Siemens). Its smallest commitment to any of these clients is 300 people. Elaborate procedures protect the customer's intellectual property, including mandatory “cooling-off” periods for engineers between clients, and sometimes a right of veto on their redeployment. The corollary is that the breadth of industry knowledge is part of the sales pitch.

The approach, says Mr Paul, varies from micro-management by the customer, who takes on Wipro engineers virtually as members of his own staff, to “total product ownership”—the handing over to Wipro of a mature product and all its global development and maintenance requirements, such as adaptation for a particular market. This allows customers to redeploy their own engineers to the next big thing.

Sarnoff's Mr Cherukuri calls this “the globalisation of innovation”—continuing the erosion in the past 20 years of the old model of corporate R&D, dominated by big firms with big budgets able to erect big barriers to entry to their markets. His firm thrives as an “open-source provider of intellectual property to the world”—ie, in the outsourcing of R&D. This is part of a broader trend, prompted partly by a rising number of entrepreneurial innovators and growing amounts of venture capital to finance them, towards a more “dispersed” model of R&D. Now, the internet has removed geographic barriers to using far-flung talent, and the popping of the dotcom bubble “has spread innovation offshore”. The dispersal is becoming global.

There is more, however, than a new form of tactful political correctness behind the reluctance of Indian firms and of India-based multinationals to describe their involvement in design work as “outsourcing”. Nandan Nilekani, boss of Infosys, which has a $150m-a-year R&D business, points out how much this area differs from the outsourcing of IT and other back-office processes. There, business is coming from cost centres, and is driven by price and efficiency. R&D clients, however, are looking for innovation and a

shorter time to market. They hope to be profit centres.

That does not mean the trend has no impact on jobs in the West, however. SAP may be typical. The Indian operation has not caused a single lay-off in Germany. But the firm's planned expansion of its R&D capability is entirely offshore, in India and to a lesser extent China. So if R&D jobs are not being lost in the West, they are not being created there either.

Many firms still see untapped potential in using the wealth of Indian talent for R&D—not just in IT-related areas but in other industries such as drugs and biotech. The long-term worry this raises for America is what Mr Paul calls “the disruption of the apprenticeship path”. Even if much of the work being done in India is not at the most advanced and sophisticated technical level, it is filling what used to be part of the professional experience that has helped to create America's legions of great innovators. Just as once unassailable American corporate R&D departments have seen their sway weakened, will it be long before America itself loses its near-monopoly of global innovation?

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Business and climate change

Slightly greener

Apr 1st 2004
From The Economist print edition

Europe goes for carbon trading, sort of

Get article background

EUROPE is not finding it easy to enter the brave green world of carbon constraints. By signing the United Nations' Kyoto treaty on climate change, European Union governments promised to reduce, during 2008-12, emissions of greenhouse gases to, on average, 8% below what they were in 1990. To meet that goal, each EU country was required to agree a national emission target, and issue carbon-dioxide allocations to every big industrial facility—in essence, granting them formal rights to emit the leading greenhouse gas, carbon dioxide, a previously uncontrolled "pollutant." Those firms unable to meet its target would be able to purchase additional carbon credits in a pan-EU market scheduled for opening in January 2005.

With each country's plan due to be submitted to the European Commission on March 31st, the past few weeks have seen bitter battles in many EU capitals—most notably Germany's. Some industry lobbies have been screaming that the economic costs of action will be ruinous. Those representing the EU power industry claim that tackling carbon could cost €2 billion ($2.4 billion) a year. The Confederation of British Industry talks of "the sacrifice of UK jobs on the altar of green credentials."

However, several studies suggest that the economic cost of carbon constraints in the next few years will be slight—not least because of the option to trade. That is because different countries (and different firms and sectors within countries) have different unit-costs of reducing carbon-dioxide emissions. If no trading between high and low reduction-cost countries were permitted, according to one study by the Massachusetts Institute of Technology, Denmark's cost of meeting Kyoto targets would be four times higher than Britain's.

Within countries, too, all is not as gloomy, nor as uniform, as some businessmen say. Consider Britain, for example. Oxera, a consultancy, has just prepared a report for the Carbon Trust (a quango promoting a low-carbon future). Unsurprisingly, this notes that sectors that are energy intensive and face stiff global competition, such as steel, will face difficulties when carbon prices rise. On the other hand, some industries now squawking about costs might turn out to be unmolested or even winners: the paper industry, for example, and even the electricity sector. What matters is whether firms can pass on costs to consumers, and whether they have access to less-carbon-intensive technologies. On this point, some bosses agree. Ian Marchant of Scottish and Southern Energy, a utility with lots of renewable energy, said this week, "I can't see a scenario in which we lose." So claims of impending economic disaster are probably overdone.

Some people regard the whole carbon exercise as a sham. After all, the Kyoto treaty may be unravelling: America abandoned it; Russia is now wavering. Without the latter, the treaty cannot enter into force. And, for all their green bluster, most European countries are not on target to meet Kyoto commitments. The March 31st deadline has proved largely meaningless. Germany barely finished its emissions plan in time. Most other EU countries did not. Spain, France and Greece blamed this on recent elections. Britain backed off at the last minute for no obvious reason.

In fact, something will (eventually) happen. The Kyoto treaty may fall apart, but the EU has passed laws making its targets binding. Andrei Marcu of the International Emissions Trading Association says that "Europe is now clearly committed to action on climate change, whatever happens to the Kyoto treaty." As for missing domestic targets, Michael Grubb of the Carbon Trust reckons that "Kyoto was designed for the rich countries to miss their domestic targets. That's why we included international emissions trading."

And this week's missed deadline? Much will depend on whether the European Commission now cracks the

whip. Most countries are expected to file their plans within weeks. The commission has a right to review them. Benedikt von Butler of Evolution Markets, a greenhouse-gas brokerage, views the situation as a poker game: “everybody was waiting to see the other hands, especially Germany's, because nobody wanted to come out with the toughest emissions targets.”

In the end, the German government played a weak hand, demanding only a slight cut in emissions in the next couple of years. Other countries will now probably follow its softly-softly lead. Far from wrecking the EU economy, carbon constraints may be feeble in the early years of the scheme. Unless the commission makes countries toughen up their plans, worries Abyd Karmali of ICF Consulting, there may be such a lax regime of emissions allocations that “the greenhouse-gas trading market is cut off at its knees.”

That would be a great pity. As Jonathan Pershing of the World Resources Institute, an American think-tank, says, a successful launch would “validate the powerful notion that the market is a good place to tackle environmental problems.” The irony is that America fought for market-based instruments such as emissions trading to be included in the Kyoto treaty, while the EU violently objected. Now, with America turning its nose up at the whole business, it is the command-and-control Europeans that, however hesitantly, are pioneering carbon trading.

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About sponsorship

French business and the press

Dassault's assault

Apr 1st 2004 | PARIS
From The Economist print edition

Business wants more control over the French press

HOW independent is the French press? Two big defence groups, Lagardère and Dassault, and two luxury-goods groups, Moët Hennessy Louis Vuitton (LVMH) and Pinault Printemps Redoute (PPR), already control a big chunk of the French newspaper business. That chunk will soon be even bigger. Serge Dassault, one of the richest men in France and the main owner of Dassault, is about to buy Socpresse, a media group with some 70 publications in France and Belgium, including its flagship, *Le Figaro*, a French national daily second only to *Le Monde*.

Mr Dassault's move, which will make him a true press baron, has been expected for a while, though until recently the Hersant family—Robert Hersant, the founder of Socpresse, died in 1996—resisted his attempts to take control of the group. These began in January 2002, when he bought 30% of the firm from Carlyle, an American private-equity firm. Seven months later he lent Socpresse €230m ($225m) to buy L'Express-L'Expansion, another media group, from Vivendi Universal, a (by then) struggling media conglomerate. Socpresse is still short of cash, so it was unable to meet the March 31st deadline for repaying the loan. As a result, the loan will automatically convert into Socpresse shares, giving Mr Dassault a 50% stake in the group. The Hersant heirs have already agreed to sell their slices of the other 50%, with one exception: Aude Ruettard, Robert Hersant's 23-year-old granddaughter, who controls 13% of Socpresse.

AFP

Dassault's daily choice

The advent of a new media baron has created quite a fuss. Journalists are fretting about his “ultra-liberal” (which in France means libertarian) political views. Worries about editorial interference were galvanised by his comment that control of Socpresse will allow him to spread ideas he considers “healthy”. In the past Mr Dassault has also tended to take great offence at reporting critical of his defence group and of himself in particular. “Serge Dassault, like his father Marcel, has a relative view of the independence of the press,” says François Boissarie, secretary-general of the SNJ, France's main union for journalists. In the 1960s Marcel Dassault, the defence company's founder, became an extremely paternalistic owner of several small regional newspapers.

In attempting to bend an editorial line or secure favourable coverage of his firm, Mr Dassault would not be alone. In May 2003 five journalists at *La Tribune*, a business daily, resigned because of alleged editorial interference by Bernard Arnault, the paper's proprietor and boss of LVMH. The journalists objected to a two-page spread on “An Empire Under Threat”, a negative book about Mr Arnault's arch-rival, François Pinault, the boss of PPR. Mr Pinault owns *Le Point*, an influential conservative weekly. Mr Pinault acquired control of a small stake in *Le Monde* in the 1990s. Its reports on PPR are taken with a pinch of salt. *Le Monde* was also at the centre of a scandal last year caused by “The Hidden Face of *Le Monde*”, a book that accused the paper's editor of influence peddling.

Moreover, publications controlled by businessmen whose firms largely live off state contracts are not famous for their unbiased reporting about the government. The defence operations of Dassault and Lagardère depend to some extent on orders from the French state, though Lagardère is transforming itself into a pure media conglomerate. But even the Dassault and Lagardère media arms depend on the government's goodwill, as most French newspapers rely on revenue from advertisements by government-controlled firms. The state also subsidises smaller regional papers, many of which could not survive without a helping hand from Paris.

The real danger is that the French press will go the way of Italy's, where most newspapers are in the hands of big business and the government applies none-too-subtle pressure on editors. Fiat, a carmaker, owns *La Stampa*, a Turin daily. Confindustria, the Italian employers' association, owns *Il Sole 24 Ore*, the most important business daily. Rizzoli, a publishing group, controls *Corriere della Sera*, the country's largest and most prestigious daily. Last May, Silvio Berlusconi, the Italian prime minister, whose family owns virtually all of Italy's private-sector television channels, reportedly forced the resignation of Ferruccio de Bortoli, editor of *Corriere della Sera*.

Unless Ms Ruettard exercises her pre-emption rights over the shares held by other family members, which seems unlikely, Mr Dassault will own four-fifths of Socpresse by the summer. (She may yet accept the €100m reportedly offered by Mr Dassault for her share.) Already, says the SNJ's Mr Boissarie, French journalism noticeably lacks the “impertinent” tone of Britain's press. With the arrival of the new media mogul, it is likely to become even more respectful of the powerful people in politics and business.

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Mobile phones on planes

Cleared for take-off?

Apr 1st 2004
From The Economist print edition

Mobile phones may not be banned on planes for much longer

CONTRARY to popular belief, mobile phones do not pose a safety threat to airliners. On an average transatlantic flight, several phones are usually left switched on by accident, and the avionics systems on modern aircraft are hardened against radio interference. No, the use of phones on planes is banned because they disrupt mobile networks on the ground. An airliner with 500 phones on board, whizzing across a city, can befuddle a mobile network as the phones busily hop from one base-station to the next.

This obstacle is on the point of being overcome: the technology is being developed to allow passengers to use their existing handsets in flight, without interfering with ground-based networks.

First, a laptop-sized base-station, called a “picocell”, will be installed in the aircraft cabin. This is connected to the telephone network via a satellite link. The aircraft cabin is shielded to prevent handsets from making contact with base-stations on the ground. Instead, they “roam” on to the network signal from the picocell. Since the picocell is so nearby, the handsets need use very little transmission power to maintain contact with it, which eliminates interference with the plane's avionics, and with networks on the ground.

All of these pieces have been put together in a prototype system by WirelessCabin, a consortium led by the German Aerospace Centre with members including Airbus, Siemens and Ericsson. It will allow mobile phones based on the dominant GSM standard to be used in the air, and also supports laptop-based internet access via the popular Wi-Fi protocol. (The first commercial airborne Wi-Fi service is being launched this month by Lufthansa.) The system has been successfully tested on the ground and will be tested in flight this summer, says Josef Kolbinger of Siemens.

A similar system for business jets will also be flight-tested this year, says Mike Fitzgerald of Altobridge, which provides technology to bridge cellular and satellite networks. Then it will be up to the regulators. In both Europe and America, regulatory bodies are drawing up rules to govern the use of wireless devices in flight—probably by mid-2005, says Mr Fitzgerald.

Perhaps surprisingly, airlines are reluctant to turn themselves into network operators, despite the prospect of lucrative roaming charges. Instead, they will probably team up with existing mobile operators or satellite operators. On-board telephony may be linked to loyalty schemes, giving regular customers lower rates or loyalty points when they make calls.

But even when technological, regulatory and commercial hurdles have been overcome, there will still be the matter of “user etiquette”, notes Stephen Mallinson of ip.access, a maker of picocells based in Cambridge, England. Perhaps aircraft will offer “phoning” and “non-phoning” cabins. Still, what better way to drown out the noise of a screaming baby in the next seat than to phone a friend?

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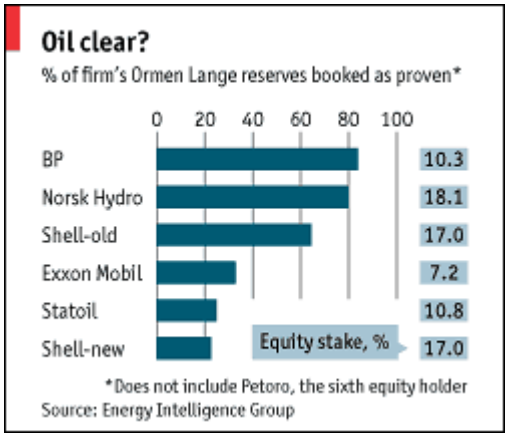
Oil and gas reserves

Brought to book

Apr 1st 2004
From The Economist print edition

There are big differences in how oil companies measure their reserves

RARELY do outsiders get to see how oil companies book reserves at a given oil field. This issue is a hot one, thanks to Royal Dutch/Shell's continuing crisis over the reclassification in January of one-fifth of its "proven" reserves as merely "probable". After shedding its boss, the firm later reclassified some more reserves at a Norwegian gas field called Ormen Lange, which Shell shares with several other oil companies.



Curiously, each firm appears to book its share of Ormen Lange reserves differently (see chart). Yet they each had access to the same physical hydrocarbons, the same seismic and well data, and the same guidelines from America's Securities and Exchange Commission (SEC).

Why the differences? One theory is that in-house managers used the "reasonable certainty" discretion allowed by the SEC to book reserves too enthusiastically. Strikingly, the two lowest estimates (Statoil's, and Shell's revision) were done using outside consultants.

But if the theory is right, why did Shell suddenly decide to use its discretion less enthusiastically—was there pressure from the SEC? Will the other firms now follow its lead? If they do, what fate awaits their bosses?

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Japanese management

The American way

Apr 1st 2004 | TOKYO
From The Economist print edition

A Japanese boss with some gaijin ideas

A GAFFE turned out to be a revelation. When Haruo Kawahara granted *The Economist* an interview, your correspondent meant to forward his e-mail with a short message inviting a colleague along—but hit the reply button instead. To a typical Japanese boss, an inadvertent message saying that his firm is “not the most exciting electronics company”, but that the boss is “an interesting management story”, would be treated as an unforgivable insult, bringing dishonour on both firm and man. But the head of Kenwood, which makes gadgets such as stereos and navigation systems for cars, is no ordinary Japanese boss. Mr Kawahara replied quickly, apparently even keener than before to chat.

Ripplewood Holdings, an American private-equity firm that has been busy in Japan, also views Mr Kawahara as a rare exception. Soon after he retired from Toshiba in 2000, after 41 years with the Japanese giant, Ripplewood put him on the board of Denon, a Japanese audio-equipment maker that it had just bought. Mr Kawahara says that he learned a lot from Ripplewood. Indeed, the experience—he played a key role in turning round Denon—made him even more determined to play a part in revitalising Japanese industry. In mid-2002, he agreed to take charge at Kenwood and launched a restructuring drive that has so far shown impressive results.

Earlier exposure to American practice arguably had an even bigger impact on Mr Kawahara. In 1967-68, he went to San Jose, California, on loan to that bastion of American management methods: General Electric (GE). This opened his eyes to the differences between Japanese and American management, an awareness that grew during a two-year assignment in Connecticut with United Technologies. Both experiences, he says, coloured his view of Toshiba for the rest of his career, leading him to doubt his managers often.

He was impressed by how good GE's managers were at getting the most from employees with vastly different cultural and ethnic backgrounds—still not a strength in closed, cautious Japan. He was struck, too, by GE's ability to get its people to write down information in a clear and usable way. Japan's engineers are no slouches, of course, and are famous for redesigning American products and manufacturing them more efficiently. The trouble, says Mr Kawahara, is that while Japan's engineers are good at describing new ideas to others in their team or division, their bosses are terrible at getting them to disseminate ideas and designs coherently throughout their organisation.

An unhealthy culture of secrecy in corporate Japan, in which internal rivals are often as much in the dark as external competitors, tends to exacerbate this failing. Thus, for all their impressive technology, Japan's big engineering and industrial electronics firms tend to struggle with complex projects. It is no coincidence, says Mr Kawahara, that nearly every Japanese attempt to launch a rocket ends in failure. No wonder the most consistently profitable Japanese technology firms are small.

Mr Kawahara is quick to stress that there are some tasks at which Japanese firms excel. Above all is a manufacturing philosophy that emphasises highly-trained workers, continuous efforts to eliminate defects, and lean production that minimises waste. In Japan's high-growth years, this was a world beater, so the country's management shortcomings did not matter much. Alas, he says, because of this success, business leaders “never needed to learn how to manage”.

In fact, says Mr Kawahara, many managers have even forgotten those sources of Japan's manufacturing success. He has taken charge at Kenwood with the aim of proving that the old principles still work, especially when combined with a few from America. And he will seize any chance to get this message out—even if it means overlooking an offending e-mail.

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German management

Kultur clash

Apr 1st 2004 | DUSSELDORF
From The Economist print edition

Mannesmann, Infineon and the troubles of corporate Germany

AFTER ten fruitless weeks, prosecutors in the Mannesmann trial are licking their wounds. On March 31st, Brigitte Koppenhöfer, the leading judge, said that so far, in the opinion of the Dusseldorf court, there had been breaches of German securities law, but none serious enough to convict any defendant of a criminal breach of trust. The case goes on, but defence lawyers are confident that no evidence will emerge to change the court's mind.

The trial, billed as the most spectacular in German corporate history, concerns extra bonuses paid to Mannesmann's senior managers after its €180 billion ($177 billion) takeover by Vodafone in February 2000. Six former Mannesmann officials, including Josef Ackermann, the chief executive of Deutsche Bank, are accused of committing or abetting a breach of trust in awarding bonuses worth €57m.

AP

Fans of management by consensus

At issue are the level of the bonuses, the sloppy way in which the paperwork was done, and exactly who instigated the payments and why. The German public sees this as corporate greed on trial. The prosecutors have tried to suggest that the payments were bribes to secure the biggest hostile takeover in history.

Klaus Esser, a former chief executive of Mannesmann, one of the accused and a lawyer by training, would like the court now to establish exactly how bonuses should be awarded. Firms in Germany “will be hesitant until this is cleared up”, he said this week. Mr Ackermann and his bank have most to gain from exoneration from criminal liability. If convicted, he would have stepped down, probably leaving a leadership vacuum.

The case has highlighted the clash in Germany between two business cultures: the increasingly imported practices of Anglo-Saxon capitalism, and those of the more socially-oriented Rhineland variety. Big German firms have traditionally been run by consensus: a German executive board has no real chief, in the American sense. Each executive is answerable directly to the supervisory board.

Although there have been moves in the American direction in some German executive suites, there are powerful opposing forces, as Ulrich Schumacher, the flamboyant, American-style boss of Infineon, a semiconductor firm, found out last week when he was abruptly ousted by his supervisory board. Mr Schumacher famously launched the firm's initial public offering in 2000 dressed as a motor-racing driver. He later irritated trade unionists and worker representatives with his repeated threats to relocate the Munich-based firm to Switzerland. He was said to lecture his own executives “like children”.

By contrast, some top German managers, who in America or Britain might have been ousted for poor performance, are still at the helm because they play the consensus game: Jürgen Schrempp, head of loss-making DaimlerChrysler, who remains in charge despite the ill-fated merger with Chrysler; or Klaus-Peter Müller, head of Commerzbank, who has cut his bank to the bone but failed to make it profitable.

Play that game well as a company's boss and the next job may be to head its supervisory board. Rolf Breuer at Deutsche Bank, Martin Kohlhaussen at Commerzbank and Albrecht Schmidt at HVB Group all took that path, despite poor performance and in defiance of the Cromme commission on corporate governance. It expressed concern in a report published in 2002 about executives of a company later

going on to its supervisory board. (The commission chairman, Gerhard Cromme, a former chief executive, and now supervisory board chairman, of ThyssenKrupp clearly does not think that this concern applies to him either.)

If the failure to achieve criminal convictions in the Mannesmann trial advances the cause of Anglo-American management practices in Germany, it should also underline the importance of doing them well. The supervisory board of Mannesmann has been revealed as unGermanically sloppy, committing all manner of bureaucratic mistakes in the process of awarding compensation. Adding American methods to traditional German business strengths may be a better strategy.

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Venture capital

After the drought

Apr 1st 2004
From The Economist print edition

After three difficult years, money is again flowing to the venture-capital industry. Can it curb its exuberance this time?

IT SEEMS like only yesterday that start-up companies, preferably doing something internet-related, and the sleek-suited venture capitalists who funded them, were all the rage. They could scarcely be less trendy now. Since the dotcom craze collapsed, many of the firms born during the boom years have died, or else stagger on as shadows of their former selves. Martin Pichinson, an insolvency specialist who has built a reputation as the “company undertaker” of America's Silicon Valley, recently said that around 7,000 companies are still waiting for the receivers to arrive. Not surprisingly, the money available for investments in start-up companies slowed to a trickle after the bubble burst.

For venture capitalists everywhere, the result has been painful. They make their money by investing in start-ups and very young companies and then selling these investments on, either to other firms through so-called “trade sales” or to other investors through a stockmarket flotation. When opportunities for start-ups, and the appetite to invest in them, both fell abruptly, the businesses of venture capitalists shrivelled. One example is Britain's 3i, one of Europe's biggest venture firms. Its boss, Brian Larcombe, said last month he will leave in July, just as the company announced that it had finally reversed the nasty losses of the past few years. Many other firms disappeared altogether.

The downturn has been more intensely felt because the venture-capital (VC) industry enjoyed an extraordinary period of easy money during the bubble. In 1999, the last full year of VC bullishness, buoyant stockmarkets made it absurdly easy to float companies, the most lucrative exit route for early-stage investors. For 1999 annual VC returns, comprising realised profits and the rise in the value of retained holdings, reached an unsustainable 146%. By contrast, in the year to September 2003 the average American VC firm showed a “return” of minus 17.8%.

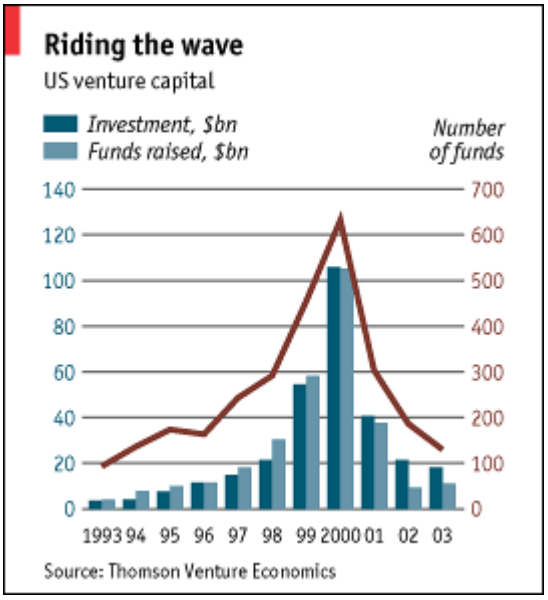
Now, however, there are signs of revival. In the fourth quarter of last year start-ups in Silicon Valley received $1.6 billion of VC money, $300m more than in the third quarter, according to VentureOne, a research company. Perhaps more importantly, for the first time in a while venture capitalists say they are spending more time looking at new business plans than nursing their ailing start-ups. In Europe, VC firms say write-offs of troubled technology investments fell by half in 2003 from the year before. Start-ups are still going bust, but more are surviving.

That is reassuring investors, for whom the allure of venture capital is the good long-term returns that

should come from betting on a portfolio of young, mostly technology-related, companies. Over the past 20 years, even including the recent downturn, VC investments have yielded an average 15.7% per year, according to Thomson Venture Economics. That is higher than the returns from most other investments. It also looks particularly attractive today, when valuations of both shares and bonds are stretched and when other so-called alternative investments are looking dodgy. Hedge funds, for instance, have been flooded with new money, and returns are bound to suffer.

If only venture capital can avoid the excesses of the late 1990s, it could be one of the last few sources of above-average returns. In fact, a new boom is the last thing the industry wants, for fear of an inevitable bust. But can it avoid one? The investment climate looks more favourable than at any time in the past four years. One factor is the improved mood of investors—the pension funds, insurers and rich folk who have traditionally been the main sources of investment into start-up companies. That has helped VC firms to stabilise their fund-raising efforts.

In 2002, for example, American VC funds raised $9 billion from new investors, but gave back some $5 billion to old ones for lack of any promising place to put it. Last year, the same firms attracted around $10 billion of new money, and gave less than $1 billion back. Investors have even been forgiving. Charles River Ventures, a Boston-based firm, was recently able to raise $250m, even after it had written off a huge portion of the value of one of its boom-era funds.



To be sure, the current pace of fund-raising is nothing like that in 2000, when venture capitalists in America and Europe pulled in an exceptional $135 billion (some of which has yet to be invested—see charts). But by the end of 2003, US fund-raising was at its fastest quarterly pace since 2001. That seems to have continued.

A recent re-awakening of the market for the initial public offerings (IPOs) of shares in new companies—ie, their flotation on a stockmarket—has also breathed new life into venture capital, as has a new enthusiasm for mergers and acquisitions. America has seen more than $6 billion-worth of new share offerings since January 1st, compared with just $300m at the same time last year. The Nasdaq stockmarket, heavy with technology firms, is up by some 70% since its trough in October 2002.

Waiting for Google

Nor is the excitement limited to America. London's stockmarket is seeing a return of technology companies after several slow years, and later this spring it is even expecting to oversee the flotation of a nanotechnology company. London has also trumpeted the success of Cambridge Silicon Radio, which makes semiconductor chips for wireless communication. It raised $165m last month, handsomely rewarding the venture capitalists who invested in the company in late 2001, in the depths of the VC depression.

Two upcoming flotations in America are likely to cause even more joy. Google, an internet search engine that was funded with $25m from Sequoia Capital, and Kleiner Perkins Caufield & Byers, two of California's most venerable VC names, is expected to float in the coming months. Some analysts reckon the company will sport a market value of up to $15 billion. Even before Google goes public, the IPO of salesforce.com might bring a smile to venture capitalists. Its has healthy annual revenues and turns a profit on the customer-relationship-management software it sells. If these offerings fulfil expectations and markets remain steady, then more VC-led offerings should follow.

Venture capitalists have typically concentrated their investing in two broad areas: technology and health care. During the enthusiasm of the bubble years, the term “technology” was stretched to include any dotcom, even if it aimed to sell pet-food or to deliver groceries in a white van. Today VC firms have mostly returned to genuine technology ventures, and notably to companies developing software applications for corporate customers. That has coincided with a rebound in company spending on IT projects.

One computing area that has continued to attract VC investments is open-source software—that is, computer code that is not owned by, say, Microsoft or Apple, and hence can be modified by anyone. For instance, Accel Partners, a big Silicon Valley VC firm, is betting on Jboss, which creates computer applications for corporate clients using Linux, the main open-source software.

That the code is free might make it seem difficult to see how any start-up company could make money from it. But, says Kevin Harvey of Benchmark Capital, another big Silicon Valley fund, open-source companies are finally finding ways of going beyond the traditional licensing model, in which users pay software companies a fee for the privilege of using their programs. Instead they charge customers for service and support functions. Red Hat, one of the firms in his portfolio, has done this so successfully that it leads its market and is nicely profitable—in 2003-04 it made $14m profit on $126m of turnover.

Start-ups focused on data storage have also won interest, thanks to companies' ever-growing demands for file storage. That has been driven in part by worries about terrorism and other forms of “business interruption”. But it has also been given a boost by the requirements introduced by America's Sarbanes-Oxley legislation, which has increased the burden on companies to keep financial records and e-mails. A spate of corporate-fraud cases has also helped focus bosses' minds on the formerly dull business of record keeping.

Rugged individuals needed

Activity elsewhere is slightly reminiscent of the boom. Plenty of money has been thrown at start-ups offering anti-spam software. There have been so many entrants that the sector risks being saturated with “me too” companies, in the same way that hundreds of online retailers sprang up in 1999. Similarly, a growing number of start-ups' names are sporting the word “nano”, bidding to exploit the rush of interest in nanotechnology.

For an even more troubling echo of the boom years, look at the growing ranks of VC-funded start-ups devoted to something called “social networking”. This refers mostly to websites that cater to people who share the same interests and want to meet and chat online. In so far as there is a “hot” VC sector, this is it. Friendster.com runs perhaps the best known such website. Last October it received a $13m joint investment from Kleiner Perkins Caufield & Byers and Benchmark Capital. LinkedIn, another social-networking start-up, received around $5m from Sequoia last November. Another half dozen “me-too” start-ups have been funded or are in the works.

Although the money being handed out is nowhere close to that given to dotcoms during the boom, it should worry investors that even the most experienced venture capitalists are showing such herd-like instincts today. Profits from social-networking firms may prove to be elusive as those from most online-retailing ventures. Venture capitalists are hoping, however, that the few winners will win so conclusively that their eventual value will justify several initial investments.

Besides, say leading VC firms in their own defence, standards are much more exacting today than they were a few years ago. Venture capitalists are reluctant to fritter money away, so have become stingier. The average technology deal nowadays on either side of the Atlantic is about one-fifth of the size of deals done at the peak. In addition, entrepreneurs are called far more closely to account.

Mr Harvey of Benchmark Capital says that the bust years have helped weed out the entrepreneurs who were merely greedy, rather than passionate, about building a company: “I don't think you will see venture capitalists funding fresh college graduates anytime soon.” Nearly all information-technology new-business plans include some element of offshoring, notes Peter Wagner, a partner at Accel Partners. Doing software-development work in India seems like a perfect fit when start-ups are receiving smaller amounts of money at wider intervals. It is especially sensible in Silicon Valley, where housing costs alone mean that even mediocre software engineers are several times more expensive than their equivalents in Bangalore. Some start-ups can exist in the more sober funding climate only thanks to cheap foreign programmers.

Healthy scepticism

While technology investing is becoming fashionable again, VCs never lost their fondness for health-care start-ups. The lure of biotechnology and drug development has always proved irresistible, even though

returns, so far, have been disappointing. But as the drug industry has changed, so too has the way VC firms invest. Increasingly they have to compete not just with each other but with new entrants—funds that once specialised in only the biggest buy-out deals, but which are now willing to invest in start-ups as well.

Take Kohlberg Kravis Roberts (KKR), which achieved fame with its mammoth leveraged buy-out of RJR Nabisco, a food conglomerate, in the 1980s. Earlier last month, KKR made its first biotech investment in an American company called Jazz Pharmaceuticals, which develops drugs for psychiatric diseases. That represents a big departure from its traditional strategy of investing in more mature firms.

Unlike their technology equivalents, VC investments in biotech have become bigger in recent years. The typical investment in 1997, for example, was less than $10m. Nowadays, funding rounds of between $20m to $25m are more common. Drug-development costs have risen steadily, but so have the rewards. “If a drug is a life-saver, there are fewer questions asked about the price. If it only gives an incremental improvement, there are many more questions,” says Nick Galakatos, a partner with MPM Capital, a Boston-based firm which raised a $900m fund in 2002.

There are good reasons why biotech deals might make long-term sense. The new-product pipelines of the world's biggest drug firms have recently been running dry. They are increasingly relying on much smaller start-up and VC-backed firms to provide them with a flow of new drugs. The idea is that start-ups will focus on research, passing promising molecules on to bigger companies that are capable of handling late-stage clinical trials and marketing, the costs of which can run into the hundreds of millions of dollars. If a biotech start-up succeeds, the big drug companies also sometimes like to buy the entire firm, rather than just its products.

MPM, for example, homes in on potential treatments for diseases of the central nervous system. One of its portfolio companies, Hypnion, is trying to find a better sleeping pill. Mr Galakatos points to America's rich and ageing population: only one-quarter of people who have sleeping difficulties take any drug, he says. Hypnion is searching for the gene or genes that control sleep, so that it can target a drug more effectively to the disorder. So far, MPM has helped Hypnion to raise $47m.

Like American venture capitalists, European firms are returning to better days, although they never suffered as big a bust. Europe remains a series of largely national markets for venture capital, and European start-ups tend to aim to conquer these rather than to dream of storming global markets. Further, Europe lacks a cluster with the clout of Silicon Valley. “Silicon Fen”, near Cambridge in Britain, is about as big and successful as any, and it has seen a sharp slowdown in recent years. Universities are becoming more reluctant to let academic research, whether in biology or in engineering, mingle freely with commerce. Disputes over the fruits of intellectual property are becoming more common, and that is proving a barrier to VC investment.

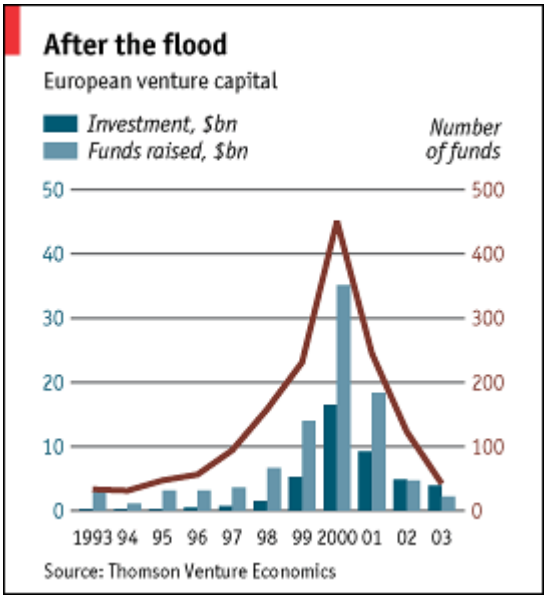
European venture capitalists also seem more risk-averse than their American competitors. That is partly because banks and corporations still dominate early-stage investing. Industrial investors are more interested in technologies that will help their established businesses than in market-changing innovations.

In a new study, Thomas Hellman of Stanford Business School, Laura Bottazzi of Bocconi University in Italy, and Marco Da Rin of the University of Turin, argue that European venture capital is becoming less parochial. The academics studied changes over the past five years. Nowadays, it turns out, over half of European venture capitalists have either an office or a partnership outside their home country. That said, European VC funds are still hamstrung by tax rules and regulations. For example, many pension funds are not allowed to invest in assets that are deemed too risky—venture capital included.

Nothing ventured

Europe's governments have been slow to simplify rules that govern the creation of new companies. Restrictive labour laws in Germany, France and many other European countries are a big obstacle to many start-ups, which often need the freedom

to hire and fire staff at short notice and cheaply just to survive. High taxes on capital gains also make it less rewarding for entrepreneurs to incorporate in such countries, which in turn puts off VC investors.



That could change. Britain is giving greater tax breaks to VC investments. Gordon Brown, Britain's finance minister, recently announced a doubling of the tax credit for VC trusts in his annual budget. A few high-flyers have smelled profits. Paul Harvey recently left a job as a technology investment banker with Goldman Sachs in London to start Abbey Road Venture Partners. He reportedly wants to raise $150m to invest in new technologies.

The European approach is certainly distinctive. European VC funds are more likely to spend their time building or refining technologies, rather than trying to develop an international brand or a company that has its own global salesforce and marketing operations. That means the Europeans are more likely to have a number of smaller “wins”, rather than a big American-style “home run”.

Anne Glover of Amadeus Capital Partners in London thinks that venture capitalists will increasingly fund start-ups using a portfolio approach in which individual VC firms team up with peers in order to pool risks. For instance, the recently floated Cambridge Silicon Radio had only three investors in its earliest funding rounds. More than a dozen firms took part in its third round, in which it raised $25m.

But the real question facing the VC industry is whether, in better times, it can maintain discipline. Experienced venture capitalists recall that during the boom they received more new-business proposals than they could read, let alone evaluate sensibly. If their post-boxes begin to groan again, they should remember the days when a flood of money caused them to drop their guard. With far less cash to play with these days, they will have only themselves to blame for any future debacle.

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Activist funds

Profit huggers

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From The Economist print edition

A new breed of funds is betting on its ability to improve corporate governance

THE word “activist” conjures up images of environmentalists hugging endangered trees. These days it is also applied to men in suits concerned about saving their clients' wealth. This year “investor activists” have ousted the chairman of Shell, halted a pricey acquisition at Vodafone and stripped Michael Eisner, Disney's chief executive, of his role as chairman in a fight for control that still continues. This week British companies and institutional investors held a two-day meeting intended to improve frayed relations.

Underlying the friction is the idea that good corporate governance leads to good performance, that certain companies are not governed at all well and that it is up to investors to make sure executives buck up. Perhaps the keenest believers in keeping managers on their toes are the small but growing number of investors known as “activist funds”.

Activist funds can be thought of as a cross between “value” investors, who buy shares in basically sound but undervalued companies, and turnaround specialists, who buy and fix broken firms. Thus they invest in public companies that, they think, are lagging their peers because of poor management practices. Through tactics ranging from gentle persuasion to fiery proxy battles, they push these companies into making their corporate governance better and sell at a profit when the market notices the improvement. “The difference is that we catalyse change rather than hoping for it,” says Howard Horowitz, manager of the Watchdog Fund, an activist mutual fund due to be launched this month.

Market figures are hard to come by given the difficulties of defining the sector clearly, but practitioners estimate that funds specialising in activist strategies manage around $10 billion-worth of assets. The bigger names include Relational Investors, a San Diego firm with $2.5 billion under management, Active Value in Britain and Sparx in Japan.

Public pension funds from Canada to Finland are backing the strategy. CalPERS, the guardian of California's public employees' pension money and America's biggest public pension manager, has said that it will put a total of $3 billion into seven such funds this year, 20% more than in 2003. With the launch of the Watchdog Fund, individuals too will be able to invest in activist funds.

Intermittently, investors from Warren Buffett to mutual funds such as Fidelity have been activists in their own right, using their influence to knock companies into shape. Public pension funds, particularly American ones, are old hands. CalPERS began publishing “focus lists” of firms with sloppy corporate-

governance practices in the 1980s. Hermes, a big British pension manager, started an in-house activist unit, Hermes Focus Funds, which takes money from its parent and other European pension funds, in 1998. It manages over £1 billion ($1.8 billion). More recently, Dutch and Spanish pension funds have targeted Ahold, a scandal-hit retailer, and Santander Central Hispano, Spain's biggest bank.

One reason for pension funds' activism is that a lot of their assets end up tracking equity indices, where swapping in and out of companies to maximise returns is not an option. Focusing on the performance of individual firms is one of the few ways of boosting returns.

But this is no easy task for large institutions that lack the time and expertise to manage their money actively. This is where activist funds come in. Typically, they target a dozen or so firms, taking bigger stakes than the pension funds and thus wielding greater influence. “They spend all day, every day focused on a small set of companies,” says Brad Pacheco of CalPERS. “So they can be more aggressive.”

Performance data may be scant, but anecdotal evidence suggests that pushing, prodding and bullying companies can pay. Relational Investors has returned an average of 29% in the eight years since its inception. Hermes Focus Funds racked up an annual average return of 28% in the five years to last June.

However, sceptics think that shrewd investment, not activism as such, has been the engine of activist funds' performance. “Touting corporate governance is good business right now,” says one fund manager in London. “But it is unclear that this is much more than good PR.”

Evidence of a link between good governance and high returns is disappointingly thin. Perhaps the most convincing study, by Paul Gompers and Joy Ishii of Harvard University and Andrew Metrick of the Wharton School, analysed 1,500 companies over a decade. It found that buying those with the best governance and selling short those with the worst would have yielded excess returns of 8.5%. Impressive stuff. But the authors' definition of corporate governance—roughly, whether the firm has “poison pills”, staggered boards and other legal impediments to a hostile takeover—is much narrower than that of most shareholder activists.

Indeed, it is difficult to define corporate governance well enough to measure it and its effects meaningfully. One school of thought has it that good governance aims at creating structures that maximise shareholder value. Others believe good governance should go beyond returns to shareholders and take into account effects on, say, employees and the environment. In February, the OECD's attempt to revise its code of corporate governance foundered on a dispute over the role of trade unions in running companies. By law, in some European countries unions have a big say.

Colin Melvin of Hermes concedes that coming up with hard statistical evidence proving that corporate governance pays is difficult. But he cites the “CalPERS effect” as proof that firms with active owners do better than those with disinterested ones. Wilshire Associates, an investment-advisory firm, found that companies on CalPERS' focus lists between 1987 and 1999 trailed the overall market by far before they were targeted by CalPERS, but outperformed it in the five years afterwards. “It is the absentee landlord syndrome,” Mr Melvin says. “Active owners do better.”

The question is: for how long? Up to a point, activist funds rely on clever stock-picking. Over the long term, it is hard to beat the market this way. Their additional tactics, such as proxy battles, are expensive in terms of time and cash. Ralph Whitworth of Relational Investors became chairman of Waste Management, a rubbish-disposal firm, in 1999 when the company faced an accounting scandal and accusations of insider trading soon after a messy merger. Relational Investors did well from the subsequent rise in Waste Management's share price, but it took an inordinate amount of Mr Whitworth's time, making it difficult for him to focus on other investments.

Perhaps even more galling, passive investors in Waste Management did just as well as Mr Whitworth's firm. That is an awkward consequence of activism in listed companies. Most turnaround specialists, being private-equity firms, can expect to keep for themselves the gains they create. Activist funds aiming to turn around public companies capture only some of the benefits of their success. The rest goes to “free-riding” passive shareholders. Seems so unfair.

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European interest rates

Softening

Apr 1st 2004
From The Economist print edition

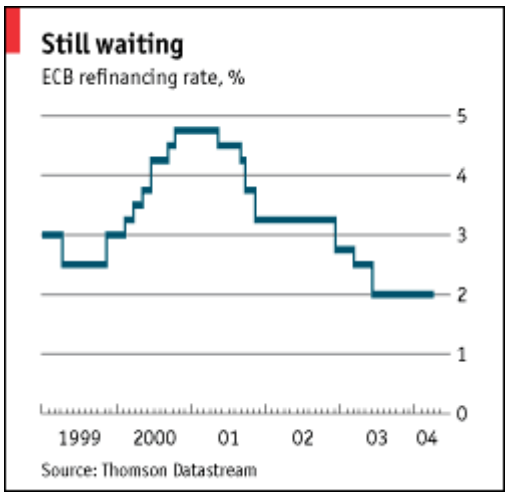
The ECB's decision was trickier to predict than usual

Get article background

IS THE European Central Bank (ECB) finally getting that rate-cutting religion? Recent comments by bank officials suggest that the central bank's hard line on interest rates may be softening. Members of the ECB's governing council, who decide euro-area interest rates, have been thinking aloud in the past few weeks, expressing disappointment with the growth outlook and apparent openness to a rate cut.

In the event, the governing council left interest rates unchanged at 2% at its monthly meeting on April 1st, as the interest-rate futures market (and most economists) had predicted. But all the chatter meant that the decision was less clear-cut than usual; in the past couple of years the ECB has been an almost boring model of predictability. Lately the odds against a quarter-point reduction have shortened considerably. A recent report by Thomas Mayer, of Deutsche Bank, puts the probability of such a cut by June, based on market expectations, at 57%.

The last time the bank went on a rate-cutting spree was between late 2002 and June 2003, when it trimmed rates by one and a quarter points (see chart). Before the ECB's recent hand-wringing, most economists had reckoned that nothing more was in store for a while, as long as the euro area did not fall back into recession.



The reasons why a cut looks on the cards are not hard to work out. Inflation is scarcely a worry. In pursuing price stability—its primary goal—the central bank aims to keep inflation close to 2%. The euro area's rate was only 1.6% in March. Meanwhile, the economy of the single-currency zone continues to flag. Ernst Welteke, head of Germany's Bundesbank, commented recently that “domestic demand has not yet picked up speed.” Jean-Claude Trichet, the ECB's president, indicated that a cut might be in store if consumer spending did not strengthen.

The economic recovery in the euro area still seems unusually fragile. Its GDP grew by a meagre 0.6% in the year to the fourth quarter. In March, *The Economist*'s panel of economic forecasters revised its forecast for euro-area GDP growth in 2004 from 1.9% to 1.8%. Germany's economy grew by a mere 0.2% in the year to the fourth quarter, and France's economy by 0.6%. Many economists are forecasting little better from either of the euro area's two biggest economies this year. It is surprising that it has taken the ECB so long to think about cutting rates.

European politicians have been badgering the independent bank to ease policy for a while. The ECB has resisted, asking them instead to focus on structural reforms—painful cuts in social programmes and changes in labour laws—that would be better for long-term growth. Good advice, maybe; but with a greater readiness to cut rates, Europe's economies might now be suffering a little less.

Meanwhile, a weaker dollar has been taking its toll on European business, even though it has recently changed course and strengthened a little against the euro. Exports, on which the euro area has been relying for growth, are down. The terrorist attacks in Madrid have weakened consumer confidence.

But could a rate cut spell the end of the euro's recent strength and give the region's exporters a fillip? As Mr Mayer's report points out, the euro has already fallen by 3.5% in trade-weighted terms since its peak

on January 6th. An ECB rate cut might keep the euro from rising again against the dollar in the short term. Meanwhile, the yen hit a four-year high against the dollar this week, amid rumours that the Japanese authorities have given up their intervention policy. And America is leaning on China to revalue the yuan. All this sounds good for euro exporters—although America's twin deficits still loom large and may limit any fall in the euro against the greenback.

Currency markets were jolted briefly this week by a rumour (false, fortunately) about the health of Alan Greenspan, chairman of America's Federal Reserve. Rattled by this, and by a few comments from the ECB, what would traders do if something serious did go wrong?

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British life insurance

The end of mutuality?

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After years of resistance, Standard Life wants to demutualise

STANDARD LIFE used to be one of the most solid pillars of Edinburgh's financial establishment, as sturdy as the Scottish capital's castle. Today the cracks are showing in Europe's biggest mutual insurer. Granted, it is far from insolvency, a fate that befell Equitable Life, a former Scottish star that was forced to close to new business in 2000. But Standard Life is so short of cash that it says it must demutualise. On March 31st the life insurer announced in an updated strategic review that demutualisation is the “best option” to address its growing need for cash.

In fact Standard Life has few options left. The big difference between a mutual and a listed company is the mutual's limited access to capital. This is not an issue for mutuals with a healthy capitalisation, but it can become a crippling problem for those in need of new money. Listed insurers can tap equity markets as well as raise money from bond markets (for example, by issuing convertible debt) to meet their obligations and guarantees or to underwrite new business. Mutuals, which are owned by the firm's policy-holding customers, can only draw on members' funds.

Until the beginning of this year, Standard Life had staunchly defended its mutuality. It had successfully and disdainfully seen off several attempts by so-called “carpetbaggers”—investors who bought policies in the hope of making a windfall from demutualisation. The company even raised the proportion of policyholders needed to vote in favour of demutualisation to three-quarters in order to deter carpetbaggers. Last July it threw off an attempt by David Stonebank, a retired lecturer, to force it to go public. But on January 13th it said that it might seek a stockmarket listing. It also replaced its chief executive, Iain Lumsden, with Sandy Crombie, his deputy, and raised an estimated £350m ($640m) by selling one-fifth of Hammerson, a property group.

Even so, the insurer still needed more quick cash. Like most British life insurers the company is under pressure to comply with funding rules for insurers that will be introduced later this year by the Financial Services Authority (FSA), Britain's regulator. Life insurers will be required to report a “realistic” balance sheet for their “with-profits” funds, taking into account guarantees promised to policyholders. (These funds are a common investment in Britain: investors share in an opaque way, determined by the life insurer, in their profits and losses.) Last month Standard Life admitted that it had been forced to sell equities worth £7.5 billion in six weeks because of the FSA's rules.

Why did Standard Life cling to its mutuality until it had become too fragile to continue? The company used to say, a little smugly, that it pursued policyholders' long-term interests more assiduously than listed insurers because it did not have to worry about dividends. Yet mutuals are not superior or worse than “proper” listed companies; it is simply a question of capital structure, says Ned Cazalet, an insurance consultant. Britain still has good and bad life insurers of both sorts.

Even so, Standard Life is not the only mutual to have gone astray. A far worse story is that of Equitable Life, whose near-collapse in 2000 was blamed by a recent official report mainly on years of mismanagement. It said on the same day as Standard Life that it, too, is considering demutualisation. Charles Thomson, the firm's chief executive, said that the future for mutuals was bleak: they are under pressure to demutualise from members keen on a windfall when they are strong; and it is hard for them to survive as independent entities when they are weak.

Standard Life's policyholders will not vote on mutuality until March or April 2006. They are unlikely to vote against demutualisation, says Mr Cazalet. The company is likely to be still too weak to live without the possibility of raising money in debt or equity markets. Many policyholders will wish a “carpetbagger” had succeeded in 2000—when Standard Life was worth about four times what it is now.

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Accounting standards

Still not tallying

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From The Economist print edition

A row over new accounting rules for derivatives simmers on

AFTER years of toil, on March 31st the International Accounting Standards Board (IASB) unveiled new rules that will ultimately be used in some 90 countries. But they fell flat in Europe, where all 7,000 listed companies are scheduled to begin implementing them next year. A long-running dispute between the European Union and the IASB over how to account for financial instruments (derivatives, options and the like) is far from settled.

The rule at the heart of the controversy—IAS 39—compels companies to account for financial instruments at market values rather than historic cost, much as American and Japanese firms already do. European banks and insurers say that this would result in too much “artificial” volatility. Currently, most national European accounting rules allow firms to value derivatives at historic cost—which is quite often zero.

The IASB is standing firm on this point. But it has given ground on others. In an amendment to IAS 39, the standards board has made it easier for companies to use so-called “macro-hedging”. It had proposed that firms match every derivative to a specific asset or liability whose risk it was hedging. No, said banks, we do not work that way: we hedge our whole exposure, not every asset and liability one by one. The IASB now says that this is fair enough.

In another concession, Sir David Tweedie, the chairman of the IASB, promised to establish a working group to look at ways of simplifying and improving IAS 39. European banks and insurers are hoping that this will lead to further changes.

Has the IASB conceded enough? The European Parliament, which has not yet authorised IAS 39 and its sister standard IAS 32, which deals with insurance accounting, must do so soon if European companies are to implement the new rules by January. Outright rejection of IAS 39 is still possible. This would not only leave Europe without coherent accounting standards but would also slow down progress towards global rules, on which the IASB and its American counterpart have been toiling for years.

Not all European banks, however, are at odds with the IASB's derivatives rules. HSBC, a big British bank, has said that it will accept the rules in total, whatever the EU decides.

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The London Metal Exchange

Pretty polymers

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The LME graduates to plastics

“THERE'S a great future in plastics. Think about it. Will you think about it?” So a certain Mr McGuire counselled Ben in the 1967 film, “The Graduate”. Ben meekly promised to think about it. Nearly 40 years later, the London Metal Exchange (LME) has taken Mr McGuire's advice. On March 30th the exchange announced that, by the end of this year, it would start trading in plastics futures, the first such contracts in the world.

Although sales of plastics amount to $120 billion a year, there has so far been only patchy hedging against changes in prices. Some companies have tried to control risks by stocking up on plastics when they think the price will rise and running down inventories ahead of an expected fall. The LME's futures contracts will enable companies to lock in plastics prices as much as 15 months ahead. Producers, mostly oil and chemical companies, can put a floor under their selling price; buyers, such as car companies or sweet-packagers, can limit what they must pay.

Will plastics futures be a good complement to the LME's expertise in metals—in which it is the world's leading market? The LME's executives stress the similarities. Both metals and plastics are traded in bulk form, before they are turned into finished products. As with metals, purchasers can opt to receive the goods from the warehouse rather than trade the contract on. Marble-sized plastic pellets will be housed in silos in America, Europe and South-East Asia; one difference is that, unlike metals, the plastics may start to degrade after about a year. The end products may be similar, because plastics have been replacing metals in some uses, notes Neil Banks, the exchange's director of operations. Indeed, plenty of big consumers of plastics, such as carmakers, already know the futures markets well, having traded metals.

Reaction in the industry has been mixed, analysts say. Individual plastics come in many forms, notes Howard Rappaport of Chemical Marketing Associates Inc, a consulting firm, with “no one type or one grade that suits all needs”. He cautions that: “When the material is going to be physically traded and delivered, folks on the receiving end need to be fully aware of what they are getting.” The LME says that they will. In any case, it is starting small, with just two contracts: for common types of polypropylene (good for cars and textiles) and polyethylene, which goes into packaging. If all goes well, three other plastics—used in such things as pipes, soft-drink bottles and foams—could be traded at the LME from 2005.

If plastics futures are a success, the trading should be worth watching. Because the LME retains an open-outcry system (in addition to electronic and telephone options), in a few months' time traders could be barking out the polysyllables.

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Demography and public finance

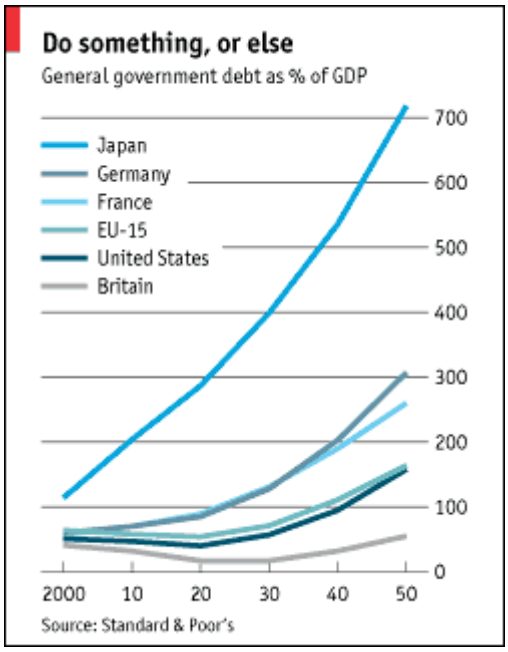
Relegation ahead

Apr 1st 2004
From The Economist print edition

Population ageing threatens countries' credit standings

A HIGH credit rating is a badge of honour for the treasuries of developed economies. Five of the G7 countries are ranked AAA, the highest possible, on their long-term debt. But ageing populations could wreak havoc on these exalted ratings if governments do nothing. By the early 2040s, all of them could be relegated into the BBB league—a ranking now bestowed on countries like Mexico—or even lower.

This is the conclusion of a new report by Standard & Poor's, a credit-rating agency, on the damage that demographic change could do to public finances around the world by pushing up expenditure on pensions and health care. Crunching the numbers for 25 advanced countries, S&P finds that such spending will rise on average by seven percentage points of GDP by 2050. Despite a reduction in bills for education and child support, total age-related spending will rise by 6.1 percentage points.



The next stage in the exercise is to work out what happens if governments duck reform or fail to raise taxes. The result: they start to run deficits, which grow alarmingly as related interest payments pile up. S&P calculates that a typical country's deficit would rise to over 4% of GDP by the mid-2020s. By 2030, deficits would reach 10% of GDP in France and Germany.

Runaway deficits will in turn cause a debt explosion. In 2000, only four out of the 25 countries—Japan, Italy, Belgium and Greece—had debt higher than 100% of GDP. By 2050, the ratio will exceed 100% in 17 countries, including America. In nine countries, the ratio will top 200%. Japan's will balloon to 718% (see chart).

This will not happen in practice, because lenders will stop lending long before that point as Japanese debt turns to junk. At present, only one country—Poland—of the 25 examined by S&P has a credit rating of BBB; all the others are in the A-league. But by the late 2020s, more than half the 25 countries will have been relegated from the A-division. By the early 2040s, all will have a ranking of BBB or lower.

Investors are not yet charging higher risk premiums on government borrowing to take account of these demographic risks. For most countries the pressure from age-related spending still looks years away. But Moritz Kraemer, the author of the report, says that “sovereign ratings could come under strong pressure early in the next decade”.

The report's scenario assumes that policy does not change; Mr Kraemer emphasises that it is not a prediction. However, the exercise shows just how urgently reform is needed in many countries. Some countries, such as Sweden and Australia, emerge relatively unscathed from the model, partly because of more favourable demographics but also because they have restructured their pension systems.

Such reform usually involves a political cost, as the French government learned in the recent regional elections. So it requires a spur. A slide in credit ratings might provide just the prod that governments need. The problem is that until it actually happens, many will prefer to procrastinate.

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Wall Street

The golden spigot

Apr 1st 2004 | NEW YORK
From The Economist print edition

Good times are back for investment banks and their bosses

RECALL, if you can, the dark days when Wall Street was under siege. Business was drying up, investment bankers and analysts were being cast out of work and the top executives of the Street's leading firms were hanging on to their jobs (and their freedom) by their fingernails. Recall, if you can, last year. Because everything has changed.

Well, almost everything. Barely a week passes without another legal settlement. On March 30th the five largest specialist trading-firms on the floor of the New York Stock Exchange concluded negotiations with regulators over accusations that they had profited at the expense of their customers. They will pay fines and recompense of $242m. Large as this sum is, it pales against the $3.2 billion earned in the fourth quarter of 2003 by the exchange's member firms. It was the best showing since 1999. For the big firms, it seems, such settlements have become merely a manageable cost of doing business.

Last year, shareholders in leading firms did correspondingly well—the average return was well over 20%—but Wall Street pay went up three times as much, according to Graef Crystal, a compensation expert. Top executives have done especially well, having provided, according to the proxies sent out over the past month, the “leadership and vision” (Goldman Sachs), “individual leadership” (Morgan Stanley), and “flawless execution” (Citigroup), needed to guide their firms through the recent rocky times. There is no mention of the same leaders' failure to keep regulators away from their firms' doors.

The bosses did, however, make the right choices: they kept what made money and got rid of everything else. Pay typically accounts for half a Wall Street firm's revenues, twice the proportion in manufacturing. So tens of thousands of employees were fired. Others had their pay slashed. Bankers who merely processed work rather than bringing it in were replaced by younger, cheaper and less jaded business-school graduates. Research was cut back, following the scandal about the conflict of interest between the appraisal of equities and investment banking; many of the most experienced analysts departed for hedge funds.

Although some businesses struggled, conditions for making money were not universally hard. The Federal Reserve's cheap-money policy and the subsequent powerful rebound in the American economy, which reduced debt defaults, provided an ideal environment for bond underwriting and trading. This benefited Citigroup, Bear Stearns and Lehman Brothers especially. It is often said that genius on Wall Street is a bull market, and the top executives of all three firms were lavishly rewarded.

As the broader markets have improved, lay-offs have ceased and headhunters have once again been on the prowl. To be a banker or broker with appreciative clients, or a derivatives trader with an expertise in financial modelling, or even (amazingly) a security analyst with a following is to be in demand again. The largest gains in compensation, however, have come in an area where there is no evidence of increased demand or tight supply: the market for chief executives.

Bouncing bonuses

Top bosses' pay dipped with profits in the past couple of years—although it could never have been called low. It has bounced back handsomely. The numbers are the product of complex compensation agreements described in barely comprehensible legalese in the securities firms' proxy statements. One thing about them is plain, though: they are huge. Citigroup estimates the earnings in 2003 of Sandy Weill, who stood down as chief executive in the autumn, at $45m; Bear Stearns values its chief executive's compensation at $39m; at Merrill Lynch, the corresponding figure is $28m; at Lehman

Brothers, it is $23m; at Goldman Sachs, $21m; and at Morgan Stanley, $14m.

According to Mr Crystal, more accurate figures may be a bit higher. He puts the value of Mr Weill's compensation at $54m, the tab for Bear Stearns at $40m, and for Morgan Stanley at $16m. A big source of the discrepancy in valuation is the method of appraising stock options. Citigroup, for example, takes the unusual step of discounting the amount derived through a standard option-pricing model by one-quarter, in order to reflect the cost of protecting the options' value. You might ask whether this protection does not undermine the options' incentive effect.

Meanwhile, Charles Prince, who has succeeded Mr Weill as chief executive, received a restricted stock-grant worth $15m as a retention bonus. It may be surprising that one needed to be paid, given that Mr Prince was an internal appointee. In any case, it is hard to imagine that he would leave so soon after accepting the top job.

Most of the firms say in their proxies that in arriving at compensation agreements they use comparisons with one another. This suggests that compensation rises in something like lockstep. It also makes the economic rationale of chief executives as a group hard to fathom.

The stockmarket itself seems to have come to terms with the high compensation demands of securities firms by valuing them at a sharp discount to the market average, concludes Ira Kay, a compensation consultant at Watson Wyatt. By paying out so much of their earnings to their employees, investment banks are, in effect, always in the process of going private. For the chief beneficiaries, life at the moment is good.

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Economics focus

Taxing the poor to pay the poor

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Europe's big welfare states are surprisingly efficient—and surprisingly inequitable

ECONOMISTS, who prize efficiency above equity, have long given warning of the dangers of redistribution. England's poor laws, which paid a pittance to the destitute out of taxes, earned David Ricardo's condemnation in the early 19th century. “The principle of gravitation is not more certain than the tendency of such laws to change wealth and power into misery and weakness,” he claimed. Modern economists have raised similar concerns about today's redistributive welfare states: by subtracting from the rewards of work and adding to the consolations of idleness, social transfers sap economies of their vigour. Some American conservatives have sought to “starve the beast”, cutting the taxes that feed social spending.

In the Nordic countries and much of Europe, however, the beast remains well fed. According to the OECD, Sweden, Denmark and Finland devote almost a third of their GDP to social transfers. Germany and France devote about a quarter. America redirects only 14% or so of its national income in this way.

The costs to Europe of overgrown welfare systems are plain: its citizens pay for redistribution with high taxes, which may be one reason why Europe's economic performance has lagged behind America's. The average French worker produces 5% more per hour than his American counterpart, but produces less in total because he works fewer hours—in part because those high taxes reduce his incentive to work. Yet Europe's redistribution has not led to the “plague of universal poverty” predicted by Ricardo. Far from it: European countries are rich.

How can this be? Peter Lindert, of the University of California, Davis, offers an answer towards the end of his new book, “Growing Public”*, a monumental history of two centuries of social spending. The big European and Nordic welfare states are undoubtedly expensive. But their economic costs are held down by the perhaps surprisingly efficient tax systems with which they are financed. Once the means of finance are taken into account, they are also less redistributive than you might expect.

Economic theory has a lot to say about efficient systems of taxation. One guiding principle is that it is better to tax consumption than income, because taxing what is spent rather than what is earned does less damage to incentives to save. If wages are taxed, and the interest on savings is taxed also, then anything saved out of your wages is, in effect, taxed twice. Compared with the Americans, the Europeans place far more of their tax burden on consumption than income.

A second principle dates from a 1927 paper by Frank Ramsey, a Cambridge polymath. In essence, Ramsey's theory says that those goods or services most sensitive to price should be taxed the least; those least sensitive to price should be taxed the most. Scandinavian tax systems, in particular, are close to the spirit of the Ramsey rule. They lean on labour rather than on capital, because capitalists are deterred from investing more easily than workers are discouraged from labouring. They tax habits, such as smoking and drinking, more than luxuries, because the addicted or habituated will buy at almost any price.

In general, Europe's big social spenders tax capital relatively lightly. On some measures, indeed, Europeans treat capital better than supposedly more sympathetic Americans. According to an OECD study, the grabbing hand of the American state took an average of 31% of capital income between 1991 and 1997. The corresponding figure was about 20% in Germany, Norway and Finland, and 24% in France. In 1998, rich Americans faced a marginal tax rate on dividends of over 46%. Rich Belgians, Finns and Norwegians paid much lower rates. While Americans were arguing about Reaganomics in the 1980s, Swedish households were enjoying a negative tax rate on capital income, once generous deductions and

adjustments for inflation were taken into account.

Thick end of the wedge

This style of taxation is efficient, but it is clearly inequitable. Taxing luxuries less heavily than, say, alcohol is likely to be regressive. Suppliers of capital, who tend to be richer, get off lightly, while labour carries a heavier burden, through both lower net income and higher unemployment. The income and payroll taxes that support Europe's large welfare states drive a deep wedge between a worker's take-home wage and the much higher cost of employing him. Generous minimum wages and unemployment benefits also put a floor under wages, pricing many people out of the labour market. The result is that just 68% of the European Union's working-age citizens are employed, compared with 77% of America's.

But surely this is evidence of the inefficiency of Europe's welfare systems and the taxes needed to finance them? Mr Lindert, however, is keen to stress the other side of the tax-and-spend ledger. Returns to some of Europe's social expenditures, such as child-care subsidies, are probably quite high, he says. He also claims, rather unkindly, that unemployment benefits and generous retirement schemes both “harvest lemons”—ie, they pluck the least productive out of the labour force. Discarding these workers subtracts little from the nation's output, he argues; it also flatters the productivity figures of those with jobs.

America, Mr Lindert conjectures, can get away with an inefficient tax code because its tax burden is quite low. Bigger welfare states have to be smarter, because the stakes are so much higher. The “Swedish model”, for example, has been declared dead more than once, but each time has reinvented itself and survived. Europe's other welfare states are now ailing, blamed for weak growth and high unemployment. Some foresee their slow demise. Survival through adaptation seems more likely.

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* “Growing Public: Social Spending and Economic Growth Since the Eighteenth Century”. Cambridge University Press, 2004

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Quantum computing

Bit by bit

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From The Economist print edition

Computing is driving the philosophical understanding of quantum theory

Get article background

FOR evidence of the power of simplicity, you need look no further than a computer. Everything it does is based on the manipulation of binary digits, or bits—units of information that can be either 0 or 1. Using logical operations to combine those 0s and 1s allows computers to add, multiply and divide, and from there go on to achieve all the feats of the digital age. But at each step of the complex operations involved, each bit has a definite value.

The same cannot be said of many properties in quantum physics, such as the spin of an atomic nucleus (loosely speaking, which way it is pointing) or the position of an electron orbiting such a nucleus. At a small scale, such properties can have more than one value at once. In 1994, Peter Shor, a mathematician then at AT&T's Bell Laboratories in New Jersey, realised that a computer that used such quantum properties to represent information could factorise large numbers extremely quickly. This is an important problem, because much of modern cryptography is based on the difficulty of factorising large numbers—so being able to do so quickly would render many modern codes easily breakable. Then, in 1996, a colleague of Dr Shor's at Bell Labs, Lov Grover, showed that such a quantum computer would be able to search through an unsorted database much faster than an ordinary computer—another important application.

With these insights, quantum computing, which had first been thought of as a possibility in the early 1980s, became a hot topic of research. It was clear to many physicists that using “qubits”—which, unlike ordinary bits, can exist in a “superposition” of the values 0 and 1 simultaneously—might yield an exponential improvement in computing power. This is because a pair of qubits could be in four different states at once, three qubits in eight, and so forth. What Dr Shor and Dr Grover showed was that the improvement, if the technological hurdles could be overcome, would be not hypothetical, but real, and useful for important problems.

The technology necessary to manipulate qubits, in their various incarnations, is challenging. So far, nobody has managed to get a quantum computer to perform anything other than the most basic operations. But the field has been gathering pace, and was the topic of much discussion among the scientists gathered in Montreal for the annual March meeting of the American Physical Society, the largest physics conference in the world.

There are currently several different approaches to quantum computing, all of which rely on fundamentally different technologies, including ultra-cold ions that are cooled by lasers, pulses of laser light, nuclear-magnetic resonance and solid-state devices such as superconducting junctions or quantum dots (which are confined clouds of electrons). What all these technologies have in common is that they can be used to invoke and exploit the bizarre phenomenon of superposition.

Superposition is not simple. Though a qubit may, for a while, be in a state of superposition between 0 and 1, it must eventually choose between the two. And in even the best quantum computers, that choice, or “decoherence”, happens in a fraction of a millisecond. Just how the choice is made, and how to prolong the preceding period of “coherence” that allows quantum computations to be made, constitute a long-unexplained gap at the heart of modern physics. For nearly 80 years, since the inception of quantum theory in the 1920s, most physicists were content to gloss over the process. What is perhaps surprising is that the technological challenge of quantum computing is now a driving force behind efforts to understand the most abstract and philosophical underpinnings of quantum mechanics.

Echoes of the future

Until a qubit interacts with the macroscopic world, which follows the classical laws of physics, it behaves according to the laws of quantum mechanics, which are well understood, at least by physicists. However, the interaction with the classical world—decoherence—and hence exactly where the divide between the quantum and classical worlds lies, are not well understood. When decoherence is deliberately provoked, the process is known as measurement. Before a qubit is measured, for example, it could have a 90% chance of being 1, and a 10% chance of being 0. After the measurement, it takes on one of these two values. But the details of how it chooses between the two are something that, until the advent of quantum computing, most physicists chose to remain agnostic about. Some even quipped that the answer to that question was beyond the realm of physics. Measurement was thought to occur instantaneously, and its effects were added to the theory ad hoc.

But decoherence, though it occurs on a short time scale, happens gradually, unlike the instantaneous idea of measurement. It can thus be investigated. Wojciech Zurek, of America's Los Alamos National Laboratory in New Mexico, discussed his research group's efforts to investigate decoherence. They recently proved that the rate at which decoherence occurs can be measured by something called the Loschmidt echo. The Loschmidt echo, named after a 19th-century German physicist, is an observable experimental measure of the sensitivity of a quantum system to changes in the energy of the system. (The exact form it takes depends on what sort of physical system is being considered.) Dr Zurek expects that the link between decoherence and the Loschmidt echo should aid theoretical understanding of decoherence.

In a less abstract tack, several papers presented at the conference showed how decoherence could actually be combated. Although the naive expectation is that any interaction between the qubits of a quantum system and the outside world will provoke decoherence, it turns out that the right kind of external signals can in fact prolong the period of coherence.

Chikako Uchiyama of Yamanashi University, in Japan, discussed how, in the general case, the application of very short pulses, poetically known as bang-bang pulses, at regular intervals can serve not only to suppress decoherence, but also to maintain entanglement—the quantum coupling between several qubits which allows computations to get done. It turns out that, in the absence of such pulses, disentanglement happens even faster than decoherence, so there is even more of a need to suppress it. The specific form of the pulses, Dr Uchiyama says, depends on the quantum-computing technology in question—in nuclear magnetic resonance, the pulses could be of the magnetic field, while for quantum dots, it would be the electric field that is pulsed.

Kaveh Khodjasteh of the University of Toronto looked at a related question, focusing on decoherence rather than disentanglement. He showed how a quantum error-correcting code which introduced only one extra qubit for error correction would create a robust system for quantum computation which had tolerance for faults caused by spontaneous emission, another bizarre quantum effect. (Error-correcting codes are used to ensure the integrity of quantum calculations.) Many quantum error-correcting codes have been proposed before, but most require a large overhead of qubits—some need up to eight times as many qubits as those necessary for a computation, while Mr Khodjasteh's code needs only one extra qubit, no matter how many are being used for the computation.

Several other speakers at the conference focused on detailed descriptions of how decoherence occurs in

specific systems, such as superconducting junctions, or quantum dots. The promise of quantum computation, spurred on by the insights of Dr Shor and Dr Grover, is inciting physicists to probe, experimentally and theoretically, the junction between the quantum and the classical. They seem to be finding that the process of decoherence is more gradual, quantifiable and open to investigation than was previously suspected. Though a useful quantum computer is probably still many years away, the field of quantum computing is well on its way to solving its first problem.

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Chaotic computing

Logic from chaos?

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Another novel technique

QUANTUM computing (see article) is not the only game in town when it comes to creating a new computing paradigm. Speaking at the American Physical Society's annual March conference, William Ditto of the University of Florida told of his efforts to create a “chaotic computer”. This is saner than it sounds. Chaos, in the mathematical sense, is not unpredictability: chaotic systems can behave in a predictable and reproducible way. The catch is that the evolution of a chaotic system depends very sensitively on its starting conditions, which leads in the long term to behaviour that is ultimately unpredictable. But by choosing those starting conditions carefully, and only letting the system evolve for a short time, Dr Ditto thinks he can harness chaos to be computationally powerful.

Dr Ditto proposes using “chaotic elements”—which could be specific types of electric circuits, lasers or even neurons—to replace the logic gates that are the basic building blocks of conventional computers. The inputs to each chaotic element, as with a conventional logic element, are binary: that is, either 0 or 1. If the element outputs a value that exceeds a threshold that Dr Ditto chooses, then the result is a 1, while if it is less than that threshold, the result is a 0. This is exactly what happens in a conventional logic gate as well.

In 1998, however, Dr Ditto and his collaborator Sudeshna Sinha of the Institute of Mathematical Sciences in Chennai, India, had a key insight. They showed that given a carefully chosen chaotic logic element, different logical operations (such as AND, OR and so on) can be performed simply by varying the threshold value. This would allow a matrix of chaotic logic elements to be simply and dynamically reprogrammed by changing their threshold values. That, in turn, would be useful in reconfigurable circuits. Unlike reconfigurable circuits which already exist today, and are used, for example, in prototyping, a chaotic computer, Dr Ditto says, could be reconfigured so rapidly that it could perform entirely different functions with each tick of the clock. This would be not only a quantitative, but a qualitative change from conventional computers.

But it is also just a starting point, because there are chaotic systems that have many different parameters that depend on one another. By cleverly designing the inputs, outputs and thresholds, such a system can perform many different logical operations simultaneously—offering, in the long run, the possibility of performing calculations far more quickly than conventional logic elements can. Dr Ditto described just how this might be done.

The theory is intriguing, but these circuits are not just theoretical. The team has built an electronic logic element using a collection of simple components, such as resistors and capacitors, which behaves chaotically. They have also made a logic element out of a pair of leech neurons (nerve cells from blood-sucking worms) placed on a microchip. Dr Ditto readily admits that, like quantum computing, this technology is still in its infancy. But it certainly has potential—even though many people feel that existing computers are quite chaotic enough already.

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About sponsorship

Diabetes

Headed off at the pass?

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It might be possible to diagnose and prevent one form of diabetes before it strikes

AP

Fizzy drinks all round, then

LIFE is not much fun for diabetic children. It involves a lot of pricked fingertips and insulin injections in the arm. Childhood staples such as sweets and fizzy drinks are discouraged. And despite all the suffering and sacrifice, as they age, diabetics nonetheless have an increased risk of blindness, kidney damage and heart trouble. The disease—known as type-1 diabetes to distinguish it from type-2 diabetes, a more widespread disorder which usually afflicts adults above the age of 45—also strikes without warning. One day, out of the blue, an apparently healthy child suddenly becomes insatiably thirsty and starts to urinate continuously.

By then, many of the body's insulin-producing islet cells have been destroyed. But while the onset of the disease seems sudden, the truth is that in many cases tell-tale antibodies have been circulating in the child's bloodstream for years, possibly since birth. What if it were possible to sample these antibodies to identify who was at risk, then intervene before the worst of the damage was done? That is what Yousef Al-Abed proposed earlier this week in a talk delivered to the American Chemical Society, which was meeting in Anaheim, California. He and his colleagues at the North Shore-Long Island Jewish Research Institute in Manhasset, New York, have come up with a molecule that appears to be able to prevent diabetes in young mice.

Type-1 diabetes is a disease of the immune system: for reasons not well understood, a combination of genetic and environmental factors prompt an all-out attack on the insulin-producing islet cells in the pancreas. Inflammation plays a role in starting this process. Some years ago, Dr Al-Abed suggested that a protein known as macrophage migration inhibitory factor (MIF) might make a logical therapeutic target. MIF signals to a network of inflammatory pathways: cutting its lines of communication might halt the inflammation, he reasoned, and perhaps even stop the disease in its tracks. This week Dr Al-Abed announced that he had found a compound called ISO-1 that seems to do just that.

Dr Al-Abed and his colleagues demonstrated two years ago that ISO-1 binds to a particular site on the surface of MIF which prevents it from carrying out its inflammatory behaviour, in the laboratory at least. But whether it would have the same effect in a living organism remained an open question. So Dr Al-Abed treated a group of laboratory mice with a chemical agent called streptozotocin, or STZ, which caused them to experience the high blood-sugar levels that characterise diabetes. Of these animals, those not treated with ISO-1 all developed chemically induced diabetes. But those that were given the drug, which was injected for ten days in the seventh or eighth week of their lives, did not. Dr Al-Abed also investigated the drug's effectiveness on another group of mice that had been genetically engineered to develop type-1 diabetes. Of these, 20 out of 22 were protected. None of the treated mice suffered from any side effects.

Because the ISO-1 molecule is small, Dr Al-Abed thinks it could be easily adapted into a human oral medicine within a few years. Test kits would also have to be developed to find the children who could benefit most. Dr Al-Abed envisages a population-wide screen, like the infant heel-prick test which is used to detect PKU, a metabolic disorder, in newborns. Individuals with high levels of diabetes-related antibodies would be monitored until the levels indicated an impending attack. At that point, the drug would be administered. Costly though such screening would be, it could save a fortune: $100 billion a year is spent treating diabetes in America alone, and while type-1 diabetes accounts for around 10% of

diabetes sufferers, it is responsible for around 40% of treatment costs. Most importantly, patients' lives would be immeasurably improved.

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Methane on Mars

A sign of life?

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From The Economist print edition

A mystery in the Martian atmosphere

Get article background

HOW did that get there? This week it emerged that three groups of scientists have independently found traces of methane in the Martian atmosphere. Vittorio Formisano, of the Institute of Physics and Interplanetary Space in Rome, detected it using a spectrometer on board *Mars Express*, a European probe orbiting Mars. This confirmed preliminary results announced last year by Michael Mumma, a researcher at NASA's Goddard Space Flight Centre in Greenbelt, Maryland, who has spotted methane using Earth-based telescopes—as has a team led by Vladimir Krasnopolsky of the Catholic University of America, in Washington, DC.

These findings are significant because methane is unstable in the Martian atmosphere, surviving for a few hundred years at most—so for it to be present, some process must be replenishing it. There are three possibilities: impacts from comets, volcanic activity, and biological activity.

Methane is found in comets, one of which could have crashed into Mars. But there is no sign of a recent impact. The methane might also have come from volcanoes. But Mars is generally thought to be geologically inert, since even the newest-looking lava fields on the surface are millions of years old, and orbiting space probes have not found any “hotspots” in surface temperature. Dr Formisano suggests that the methane might instead be the result of “pseudo-volcanic activity”, such as the slow release of gas from volcanic fissures or geothermal vents. But it is the third possibility that is most intriguing: that the methane is the result of biological activity. Most of the methane in the Earth's atmosphere was put there by bacteria that produce it as a by-product of the decay of organic matter.

Distinguishing between these possibilities will not be easy. Dr Formisano says he is looking for evidence of geographical variations in the distribution of methane. Then, he says, a future rover could be sent to the appropriate region to examine the methane using a mass spectrometer. It might be able to distinguish between biological and non-biological methane by examining the ratio of two forms of carbon, one of which (on Earth, at least) is associated with biological activity. Scientists searching for life on Mars may, it seems, have picked up a whiff of their quarry.

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About sponsorship

Satire in Italy

It's a riot

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ROPI

Italian playwrights and comedians who mock the government are finding it hard to get television work, and are migrating to the stage. Even that may not be safe

LATER this month, theatre-goers in the central Italian city of L'Aquila will be shown a play that gives new meaning to the term “political theatre”. All but one of the actors in “Il Partito d'Amore” (The party of love) is a sitting member of the Italian legislature. The drama has been playing up and down the country for nearly two years. The plot is always the same, though the script is constantly updated. Some ministers wait in an anteroom of Silvio Berlusconi's villa for a chance to see the boss. One by one, the ministers—each played by an opposition politician who shadows him or her in real life—discuss their portfolios with a secretary. Their lines are real—verbatim quotes from interviews, articles and parliamentary committee appearances, intended to hold the government up to ridicule.

“Il Partito d'Amore” is perhaps the oddest example of a growing phenomenon—the move to the theatre by political satirists unable to gain access to television in a country where all six main channels are owned by, or answerable to, the prime minister. “Since classical times, the theatre has been used as a means of communication, especially at difficult moments, as during dictatorships,” said Fernando Dalla Chiesa, the centre-left senator who plays the part of Mr Berlusconi. “In Italy, we do not have an authoritarian system. But we do have a sick democracy.”

Last November, Sabina Guzzanti, an impressionist, took to the theatre after the scrapping of “Raiot”, a projected series of one-hour programmes she made for the state-owned television network, Rai. Despite being put out in the hour either side of midnight, her programme drew an average audience of 1.8m. Ms Guzzanti ended the first show with the words: “See you next Sunday. Perhaps.” Her circumspection proved justified. Mr Berlusconi's TV group, Mediaset, tried to have the comedienne indicted for criminal libel for alleging its Rete 4 channel was on the air without proper authorisation. In January, a Milan prosecutor argued that there was no case to answer on the grounds that what Ms Guzzanti had claimed was broadly “objectively true”. Mediaset is contesting the prosecutor's recommendation; meanwhile, the show has not been reinstated.

Daniele Luttazzi, one of three television personalities accused by Mr Berlusconi in 2002 of making “criminal use of public television”, has also vanished from the nation's screens. After touring with a review and making a DVD sub-titled “Bin Laden can get on TV, but I can't”, he was allowed back on to Rai for a few minutes last November to make what turned out to be a series of scrupulously balanced jibes at government and opposition politicians. Mr Luttazzi said harder-hitting material had been cut. Rai has not denied his claim.

But is the theatre any longer a safe refuge? Gianluigi Melega, for one, has his doubts. He is the librettist of “Mr Me”, a one-act opera, written in English, about an unidentified egomaniac tycoon-politician. Mr Melega claims that, after being assured it would open at the international festival of contemporary music in Venice in October, he was told it had been dropped “on financial grounds”. Mr Melega said: “We could have staged the opera at practically no cost by using advance earnings from tour bookings.” The festival's director, Giorgio Battistelli, replied that, for cost reasons, the festival was to be devoted entirely to orchestral music. “Mr Me” no longer “fitted into my artistic project.”

Once on-stage, a satire can still face problems. Dario Fo (pictured above) put on a play last year entitled “L'Anomalo Bicefalo” (The two-headed anomaly) that also poked fun at Mr Berlusconi. Before the play began touring, the director of Milan's renowned Piccolo Teatro, had written to the *Corriere della Sera* newspaper complaining of pressure not to stage it.

Then, in January, one of Mr Berlusconi's closest associates, Marcello Dell'Utri, filed a claim for damages of €1m ($1.2m) for “unfounded personal attacks”. The play accuses Mr Dell'Utri, a senator and former head of Mr Berlusconi's advertising company, of drug trafficking and involvement with organised crime. Mr Dell'Utri is on trial for alleged Mafia links. He denies the charges.

It would be unthinkable to screen Mr Fo's play on Rai, let alone Mediaset. But a satellite channel carried by Sky Italia did schedule “L'Anomalo Bicefalo” for transmission. With less than 24 hours to go, the channel was served with a summons by Mr Dell'Utri's lawyers. The play was eventually broadcast—without a soundtrack.

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France

The favoured few

Apr 1st 2004
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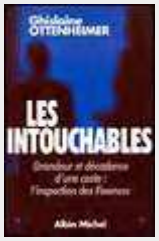
WE KNOW about the *énarques*, that super-breed trained at the Ecole Nationale d'Administration, the French post-graduate civil-service college. The school's alumni count six of the past 11 prime ministers, from Jacques Chirac to Lionel Jospin. But how many know of the elite inner circle of the *énarquie*, made up of the *inspecteurs des finances*?

Every year, the 100 or so ENA graduates are ceremonially ranked. The top 15 join one of the three main areas of the French civil service, opening the door for these fresh-faced protégés to the best jobs. Of these, only the top four or five can join the most elite club of all, the *inspection des finances*. As powerful as its name is anodyne, this roster of super public-auditors numbers only 290 French men and (very few) women in working life today, and includes Valéry Giscard d'Estaing, Jean-Claude Trichet, Alain Juppé, Michel Rocard, Pascal Lamy, Henri de Castries, Michel Pébereau and Louis Schweitzer.

Ghislaine Ottenheimer tries to be even-handed in her assessment of this clique. But her contempt is thinly disguised. They are a “secret army”, a “state nobility”, a “race apart”, a “rigid and arrogant cast”. Its lifelong members call each other *camarade*, sit on each other's boards, attend each other's weddings.

Les Intouchables: Grandeur et Décadence d'Une Caste—l'Inspection des Finances
By Ghislaine Ottenheimer



Albin Michel; 445 pages; €21.50

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Amazon.fr

America has its Ivy League, Britain its Oxbridge. Why such scorn for this French higher caste? The author's answer is that it is too narrowly selected, and too narrowly trained. With thousands of graduates each year, Oxford and Cambridge dwarf all of ENA's yearly output, let alone its highest flyers.

Moreover, ENA was set up in 1945 to turn out a meritocratic elite equipped to run an administered economy battered by war. Today, while the *inspecteurs des finances* must serve the state in their early years, many go on to top jobs in private business, just as their elders went on to run nationalised industries. But Ms Ottenheimer blames ENA—“a vast clone-manufacturing machine”—and the mindset of the *inspecteurs*, for some of France's most spectacular recent corporate collapses: Vivendi, France Télécom and Alstom.

Nobody, in her view, personifies the supremely self-confident, narcissistic type better than Jean-Marie Messier, the former head of Vivendi Universal, who steered the one-time media giant close to bankruptcy in 2002. In the light of the recent conviction for political corruption of Mr Juppé, a fellow *camarade*, the only pity is that she could not make use of the downfall of these two *inspecteurs*—one corporate, one political—as a comparative study of France's real elite.

Les Intouchables: Grandeur et Décadence d'Une Caste—l'Inspection des Finances.
By Ghislaine Ottenheimer.
Albin Michel; 445 pages; euro21.50

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PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The war in Indochina

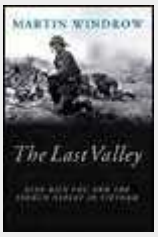
Loss remembered

Apr 1st 2004
From The Economist print edition

MENTION the names Isabelle, Huguette, Eliane or Natacha to anyone with a sense of history who has served in the French Foreign Legion or with the French paratroops, and the nod of wistful and romantic recognition is unmistakable. These are some of the code-names from long ago of the defended hill outposts and paratroop drop-zones set in the waving elephant grass of the Indochinese highlands at Dien Bien Phu.

It is the showdown between the French and the Viet Minh that took place in 1954 that is the subject of this account. Martin Windrow is a self-deprecating publisher and expert on the French colonial army who denies himself the title of “historian”, but his book proves that his modesty is misguided.

The Last Valley: Dien Bien Phu and the French Defeat in Vietnam
By Martin Windrow



Weidenfeld & Nicolson; 734 pages; £25

Buy it at Amazon.co.uk

The reader can almost hear the parachute canopies cracking open as Operation Castor begins on November 20th 1953, when the airborne elite of the French colonial army was first parachuted into the valley of Dien Bien Phu. Seven years into a vicious, expensive, politically unpopular and largely ignored war being fought thousands of miles from Paris, the French expeditionary force under General Henri Navarre was under pressure from its political masters at home to grasp the military initiative from the Chinese-backed forces of the Viet Minh.

The French wanted a strong bargaining position in the forthcoming Geneva peace talks, and General Navarre was convinced that if the Vietnamese under General Vo Nguyen Giap could be brought into conventional battle, the French could win the day. To this end, it was decided to set up a massive air-supplied firebase seven miles from the border with Laos, 300 miles away from the French zone of control in the Gulf of Tonkin. Inside a defended area some 30 miles round, Navarre (pictured above, left) set up a series of parachute drop-zones, an airstrip and a string of heavily defended strongpoints, with now-famous codenames, including Eliane and Huguette.

The result, and General Navarre's dramatic failures of operational command, are history. General Giap refused to confront the French immediately, but waited until March 13th 1954 before launching “human-wave” assaults against outpost Beatrice. In the subsequent 57 days of battle, the French paras, legionnaires and colonial troops—outnumbered and out-gunned, cut off from re-supply except by air, flooded by monsoon rains, living underground under intense artillery barrages inside a steadily shrinking perimeter—fought and died in the mud as they struggled to hold back the suicidal waves of Viet Minh assaults.

AFP

Indochina syndrome

The lessons that America, France's major supporter in the war, failed to appreciate in Indochina and at Dien Bien Phu were to lead to many of the difficulties that America's own forces suffered later on, in the jungles of Vietnam.

Success in battle, according to one military maxim, may not, on its own, assure the achievement of national security goals, but defeat will guarantee failure.Mr Windrow's vivid and well-writtenaccount confirms that this was certainly the case at Dien Bien Phu in 1954. Hisbook is a tribute to his abilities both as a historian and as a writer.

The Last Valley: Dien Bien Phu and the French Defeat in Vietnam.
By Martin Windrow.
Weidenfeld & Nicolson; 734 pages; £25

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About sponsorship

Gay marriage

Win, win, win?

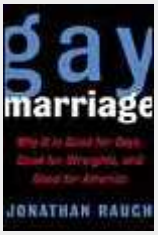
Apr 1st 2004
From The Economist print edition

IN THE Supreme Court's 1986 landmark ruling denying the right of adult gay men to engage in consensual homosexual sex, Chief Justice Warren Burger wrote approvingly: “Blackstone (an 18th-century English jurist) described ‘the infamous crime against nature' as an offence of ‘deeper malignity' than rape, a heinous act ‘the very mention of which is a disgrace to human nature', and ‘a crime not fit to be named'. To hold that the act of homosexual sodomy”, he continued, “is somehow protected as a fundamental right would be to cast aside millennia of moral teaching.”

That was fewer than 20 years ago. How things have changed. In 2003 the Supreme Court struck down America's sodomy laws. A few months later, the Massachusetts' Supreme Court became the first state court to rule that gays had a constitutional right to wed. That spark started a bush fire, which has swept the country. Over the past few weeks, renegade ministers and officials in towns and villages in half a dozen states from New Mexico to New Jersey have been doling out thousands of marriage licences to jubilant gay couples.

Horrified conservatives are now working to stamp out the blaze which, they say, is threatening one of the most important foundations not just of American society, but of the whole civilised world. Five American states have already rushed through legislation explicitly banning same-sex marriages. And George Bush has agreed to seek a constitutional ban to the same effect.

Gay Marriage: Why It Is Good for Gays, Good for Straights, and Good for America
By Jonathan Rauch



Times Books; 207 pages; $22

Buy it at
Amazon.com
Amazon.co.uk

Into this hot angry debate comes Jonathan Rauch's cool, articulate, poignant plea in favour of gay marriage. Some kind of civil union or “marriage-lite”, with similar rights to those of married heterosexuals—as proposed or already introduced by several western countries, including Britain—will not do, he insists. What he and his fellow gays yearn for is full-blown marriage with all its burdens as well as its benefits: “To have and to hold, for better for worse, for richer, for poorer, in sickness and in health, to love and cherish, till death do us part.” This, he declares, is the essence of marriage—not sex, or children, or even self-fulfilment, but a life-long commitment, recognised and supported by society, by two people to care for one another.

Mr Rauch goes on to rehearse all the arguments against same-sex marriage, only to knock them down one by one. Marriage is for children? Then sterile couples and post-menopausal women should not be allowed to wed. Besides, more than a quarter of gay households in the United States has children, compared with just under half of heterosexual couples.

Gays are incorrigibly promiscuous? True, most gays have had more partners than heterosexuals, he concedes, but nothing like the 20-100 times sometimes claimed. He cites one study which found that the median number of partners for a straight American adult male was six, compared with ten for a gay—and that difference might have been even smaller had gays been able to benefit from the stabilising effects of marriage, he suggests.

No culture or society has hitherto countenanced wedlock other than between a man and a woman. But the institution of marriage is under threat, Mr Rauch argues, from extramarital partnerships, such as cohabitation. Over the past three decades, the marriage rate in America has fallen by 40%. In Europe, more than half the children in some countries are now born out of wedlock. Far from further damaging an institution that he, too, regards as the bedrock of civilisation, allowing same-sex weddings would actually strengthen it.

Most Americans regard marriage as an indispensable element in their pursuit of happiness. Why, he argues, should some 12m, roughly 4-5%, of their fellow citizens (according to most estimates) be deprived of what the American Declaration of Independence describes as an “unalienable right...endowed by the Creator”? Permitting same-sex weddings would be a win-win-win situation, he argues: good for gays, good for straights, and good for the institution of marriage—good, therefore, for the whole of American society.

Mr Rauch, an American journalist and writer, and a former contributor to *The Economist**, does not ask us to like gays or even to approve of them—simply not to discriminate against them. The ban on gay marriage, he cries, is “scaldingly inhumane”.

This is a powerful book, clear, tolerant and persuasive, never ranting or self-pitying. According to a new poll, published last week, a small majority—51%—oppose amending the constitution to impose a ban on homosexuals marrying. Despite that slight advantage, Mr Bush and 63% of his fellow Americans oppose gay marriage. Mr Rauch's book should become obligatory reading for all.

Gay Marriage: Why It Is Good for Gays, Good for Straights, and Good for America.
By Jonathan Rauch.
Times Books; 207 pages; $22

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*In 1995-96. Our rule is that we do not review books by staff or those who left us within the past five years. We should disclose, however, that Mr Rauch wrote our first leader on gay marriage, “Let them wed” (January 6th 1996). He was not involved with our recent leader “The case for gay marriage” (February 29th 2004).

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Fiction in translation

Come the Catalan

Apr 1st 2004
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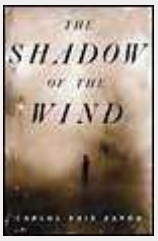
“THE Shadow of the Wind”, a huge bestseller when it came out in Spain three years ago and now being published in English for the first time, is a big baroque bag of gothic horrors. The book is written by someone witty and knowing enough to spoof himself while still being able to raise the hairs on the back of your neck. It is also a quasi-Freudian biblio-adventure, looping and twisting through the streets of post-war Barcelona and in among the pages of books, in search of lost fathers and sons, mothers and daughters.

The Shadow of the Wind
By Carlos Ruiz Zafón. Translated by Lucia Graves



The Penguin Press; 547 pages; $24.95. To be published in Britain by Weidenfeld & Nicolson in June

Buy it at
Amazon.com
Amazon.co.uk

The main thread follows Daniel, a young man born during the Spanish civil war, whose mother died of cholera when he was four. When he is ten, his bookseller father takes him to his mysterious and maze-like Cemetery of Forgotten Books—shades of Umberto Eco here—where the boy chances upon a novel. The book instantly seizes his imagination, but just as instantly (and traumatically) the memory of his mother vanishes. In a curious displacement that is never quite explained or resolved, Daniel's story then becomes a quest not—or not ostensibly—for his mother, but for his spiritual father, the author of the novel, Julian Carax.

This second-level novel is—yes—about a young man in search of his real father, and resembles the novel we are reading: a Russian doll, a story within a story, splitting “as if it had entered a gallery of mirrors”. Not only does our story also split, but it folds back on itself, for Carax is himself in search of a son, and...but enough.

This is not what keeps the reader turning the pages. Carlos Ruiz Zafón's zest is infectious. Dickens-like (and with some of his whimsy too), he can knock you up a character, complete with a colourful past, a nose and a turn of phrase—Daniel's friend for example, the flamboyant Fermín Romero de Torres, or the vile policeman who tortures him, one of Franco's thugs. Comedy, film noir, Goya nightmare, fantasy game—Mr Zafón seizes everything that comes to hand. He swathes his story in atmospherics: no one is without his wreath of cigarette smoke, no recess without its shadowy figure. Barcelona becomes a place of doors opening into dark interiors of the mind.

Behind all this is a fierce satirical energy against the tyrants and philistines of history. As Daniel digs up multiple versions of Carax's life, in particular the story of his great love, Penelope, a sinister history emerges, a perspective of arrogant and powerful men in whose shadow love withers: a dodgy financier, a textile giant, an arms dealer. These are the fathers that really matter in the book, and Daniel's mission, though he doesn't know it, is to undo their curse. Many coincidences later, he wins the game by finding his own Penelope in the very place—a surreally spooky mansion of broken statues and a grisly crypt—that has witnessed their worst cruelties. A game it may be, but somewhere in the shadows are the Caprichos of Goya.

The Shadow of the Wind.
By Carlos Ruiz Zafón. Translated by Lucia Graves.
The Penguin Press; 547 pages; $24.95. To be published in Britain by Weidenfeld & Nicolson in June

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About sponsorship

Amazon worldwide bestsellers

The big book index

Apr 1st 2004
From The Economist print edition

Fat, fear and fortune have seized the world's imagination—and Harii Pottaa

WHAT is the world's biggest selling book? A simple question with no simple answer. But Amazon, which has sold over 500m volumes since it was founded nearly ten years ago, may come closer than anyone to the right answer.

Every month, from now on, the online book retailer will draw together the global sales of its six websites in America, Britain, Canada, France, Germany and Japan to offer readers of *The Economist* a snapshot of the books that really sell. Anyone who assumed that pulp thrillers sold in airports and supermarkets will always top the rankings is in for a surprise with our first list.

1. Harii Pottaa to Fushichoo no kishidan.
By J.K. Rowling. Translated by Yuko Matsuoka. *Say-zansha Publications; 2 volumes; 4,000 yen*

The wait is over. It may have taken nine months, but pre-publication orders, launched on March 15th for the Japanese edition of "Harry Potter and the Order of the Phoenix" were enough to put the wizard into pole position. Although the book won't come out until September, watch out already for that mêlée of HP-starved kids making a rush for the internet; they're even more dangerous than He-Who-Must-Not-Be-Named.

2. Against All Enemies: Inside the White House's War on Terror-What Really Happened.
By Richard Clarke. *Free Press; 304 pages; $18.90. Simon & Schuster; £13.29*

The one book on national security that is making President George W. Bush cry—and everyone else cry out.

Buy from Amazon.com or Amazon.co.uk

3. The Da Vinci Code.
By Dan Brown. *Doubleday; 454 pages; $14.97. Black Swan; £5.59*

The bloody murder of a museum curator to hide the whereabouts of an important religious relic initiates an unlikely conspiracy thriller that mixes codes, ciphers and *lurve*.

Buy from Amazon.com or Amazon.co.uk

4. Good to Great: Why Some Companies Make the Leap... and Others Don't.
By Jim Collins. *HarperCollins; 320 pages; $16.50. Random House Business Books; £14*

Your company can become great, but there are no easy routes to greatness. Jim Collins's researchers sift through the records of 1,435 companies to try and map a common route to success.

Buy from Amazon.com or Amazon.co.uk

5. The South Beach Diet: The Delicious, Doctor-Designed, Foolproof Plan for Fast and Healthy Weight Loss.
By Arthur Agatston. *Rodale Press; 310 pages; $14.97 and £12.59*

It's not so much live to eat, as live and eat. The SBD says fix your blood sugar: kill those cravings before

the carbs kill you.

Buy from Amazon.com or Amazon.co.uk

6. The Power of Intention: Learning to Co-Create Your World Your Way.
By Wayne W. Dyer. *Hay House; 300 pages; $14.97 and £13.68*

Intention is not dogged determination, but inner awareness, according to this highly popular motivational speaker.

Buy from Amazon.com or Amazon.co.uk

7. The Sexy Years: Discover the Hormone Connection—The Secret to Fabulous Sex, Great Health, and Vitality, for Women and Men.
By Suzanne Somers. *Crown; 384 pages; $15 and £12.34*

Menopause is a complicated business. Learn the difference between those junky hormones that pop up in the news and the good ones that can help you.

Buy from Amazon.com or Amazon.co.uk

8. The Purpose-Driven Life: What on Earth Am I Here For?
By Rick Warren. *Zondervan; 336 pages; $11.99 and £6.99*

Worship, community, discipleship, ministry and evangelism are the key to life.

Buy from Amazon.com or Amazon.co.uk

9. Angels & Demons.
By Dan Brown. *Pocket Star; 608 pages; $7.99. Corgi; £5.59*

A papal conclave, a plot against the Vatican, a scientist in a wheelchair and more ciphers, codes and *lurve*—from the author of "The Da Vinci Code".

Buy from Amazon.com or Amazon.co.uk

10. Dr Ali's Nutrition Bible.
By Mosaraf Ali. *Vermilion; 224 pages; £14*

After the Mayo Clinic, the South Beach, Dr Atkins, Dr Kushner and Dr Shapiro, try this.

Buy from Amazon.co.uk

11. Sakrileg.
By Dan Brown. Translated by Piet van Poll. *Lübbe; 605 pages; €19.90*

Why create a bestseller in English when you can also do it in German. "The Da Vinci Code" breaks out.

Buy from Amazon.de

12. The Five People You Meet in Heaven.
By Mitch Albom. *Hyperion; 198 pages; $11.97. Little, Brown; £9.09*

Coming soon after Dan Brown's angels and demons, a remake of "The Christmas Carol".

Buy from Amazon.com or Amazon.co.uk

Source: Global orders from Amazon.com, Amazon.co.uk, Amazon.ca, Amazon.fr, Amazon.de and Amazon.jp from February 29th-March

27th. Prices quoted from Amazon.com and Amazon.co.uk are correct as of March 29th.

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About sponsorship

Alistair Cooke

Apr 1st 2004
From The Economist print edition

AP

Alistair Cooke, smoother of transatlantic tensions, died on March 30th, aged 95

FOR as long as anyone can remember, Alistair Cooke was the perfect embodiment of the special relationship. British ambassadors sometimes take Washington by storm, but more usually blend in with the scenery. British prime ministers sometimes forge real personal bonds with American presidents, but more often have to do with the make-believe kind. Mr Cooke, a BBC broadcaster, was different. For more than half a century he formed a solid, though urbane, one-man bridge between the two cultures.

Every Thursday, for 58 years, he wrote his “Letter from America”. He would compose in his Manhattan flat, picking away at his typewriter, with the trees of Central Park laid out before him. The letters were generally pegged to some current event, but anything less like the urgent hectorings of foreign correspondents would be hard to imagine. Mr Cooke was a master of the perambulatory style. Each letter wandered for 15 minutes down all sorts of highways and byways only to end up, just when it seemed he must have lost his way, at his intended destination.

His voice alone lured listeners on. It was a treasure, light and high, with a jaunty breathiness honed by decades of smoking, and with a curious accent that floated somewhere in the mid-Atlantic. And this was where he belonged, patiently explaining one side to the other.

He had first seen America in the early 1930s, travelling on a Harkness Fellowship. Even in the Depression, its energy and vitality astonished him. “The landscape and the people”, he once said, “were far more gripping and dramatic than anything I had ever seen.” Until then, his interest had lain vaguely in the theatre. From then on, it shifted to what he saw as the real drama unfolding in the world—the United States. In 1941, he became an American citizen.

Mr Cooke made his analysis of his new country sound easy, but it was not. As he well knew, the superficial similarities between Britain and America hid differences that lay deep and needed careful unravelling. “The stress will tend always to be on the springs of American life, whose bubbles are the headlines, rather than on the headlines themselves,” he told the BBC as the letters began, in 1946.

In his first, he told weary Britons that even New York was a war casualty, driven to burning filthy soft coal and hoarding butter. In his last, delivered a month before his death, he reminded his audience that Bill Clinton might well have invaded Iraq but for the Monica Lewinsky affair. “By the time Clinton was

ready to mobilise an American or allied force, he didn't possess the moral authority to invade Long Island." In the almost 3,000 letters in between—he missed only three broadcasts—he covered all the most important events in modern American history, from Watergate to September 11th, from the black market in beef to the Black Panthers, from Vietnam to the California recall.

Mr Cooke was almost as influential in shaping America's image of Britain. As the host of "Masterpiece Theatre" for two decades, he carefully nurtured the idea that Britain continued to play Greece to America's Rome. He sat in his easy chair surrounded by books and enveloped by civilisation, but with no trace of that superiority that sometimes seems natural to Limeys. "As empires go," he once told his American audience, "the British empire was a wink in the eye of history."

A necessary man

In 1976 his adopted country paid him the highest compliment imaginable, when Congress chose him to give the keynote address at its bicentennial celebration. It was all a very long way from Salford, near Manchester, where he had been born as plain Alfred Cooke, the son of a metalworker. His elder brother left school at 15 to become a butcher. But Alfred shinned up the scholarship ladder, to grammar school and Cambridge, before winning that fateful Harkness Fellowship.

Though known mostly as a broadcaster after 1938, when the BBC made him its chief commentator on American affairs, Mr Cooke was also for 27 years the chief American correspondent for the *Manchester Guardian*. He short-changed neither employer, at one stage sending the newspaper 4,000 words a day. Yet, as he admitted, he was seldom present at "a single accidental convulsion of history". The few exceptions became fodder for his most compelling letters, as when he found himself in the hotel pantry where Robert Kennedy was shot in 1968. That place, he told his audience, "I suppose will never be wiped out of my memory: a sinister alley, a Roman circus run amok, and a charnel house. It would be quite false to say, as I should truly like to say, that I'm sorry I was there." For once, his journalistic instincts were trumping his good manners.

The world that produced Mr Cooke has gone. Americans increasingly see British journalists not as civilised gentlemen but as drunken spongers, like Peter Fallow in Tom Wolfe's "Bonfire of the Vanities". The *Guardian*, the descendant of Mr Cooke's old paper, routinely presents Americans as bloodthirsty lard-arses. The two countries, ostensibly allies, too often view each other suspiciously and lovelessly. At Mr Cooke's death, the special relationship had never needed him more.

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Overview

Apr 1st 2004
From The Economist print edition

Consumer confidence in **America**, as measured by the Conference Board, inched lower in March to 88.3 from 88.5 in February. The volume of retail sales rose by 9.1% in the year to February.

The European Commission's measure of **euro-area** economic sentiment rose slightly in March. However, separate measures of consumer confidence were less optimistic in the wake of the Madrid terrorist attacks. Consumer prices in the euro area rose by 1.6% in the year to March. In **Italy**, they rose by 0.3% in March, and by 2.3% in the year to March. Italian nominal wages rose by 2.8% in the year to February.

Australia's 12-month trade deficit widened in February to $15.9 billion.

Industrial production in **Switzerland** rose by 1.7% in the year to the fourth quarter.

After rising by 3.3% in January, **Japanese** industrial output fell by 3.7% in February. In the year to February, it rose by 6.9%. Japan's unemployment rate was unchanged in February at 5.0%.

The **yen** surged to a four-year high of ¥103.4 to the dollar.

Britain's current-account deficit narrowed in the fourth quarter to $8.9 billion, equivalent to 1.9% of GDP, from $10.1 billion in the third quarter.

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Output, demand and jobs

Apr 1st 2004
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2004	2005	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 4.0	Q4	+ 5.5	+ 3.7	+ 3.3	– 0.1	Q3	+ 7.3	Q4	5.9	Feb	6.1
Austria	+ 0.8	Q3	+ 1.4	+ 1.8	+ 2.1	+ 3.4	Oct	+ 0.1	Dec	4.4	Feb	4.2
Belgium	+ 1.2	Q4	+ 2.4	+ 1.8	+ 2.1	+ 1.2	Jan	– 0.7	Dec	12.8	Feb†	11.8
Britain	+ 2.7	Q4	+ 3.4	+ 3.0	+ 2.5	+ 0.4	Jan	+ 6.5	Feb	4.8	Jan††	5.0
Canada	+ 1.6	Q4	+ 3.8	+ 3.0	+ 3.2	+ 0.5	Jan	+ 0.8	Dec	7.4	Feb	7.5
Denmark	+ 0.3	Q4	+ 1.2	+ 2.0	+ 2.3	– 1.5	Jan	+ 1.8	Dec	6.5	Jan	5.5
France	+ 0.6	Q4	+ 1.8	+ 1.9	+ 2.2	+ 0.9	Jan	– 2.2	May	9.6	Feb	9.4
Germany	+ 0.2	Q4	+ 0.9	+ 1.6	+ 1.8	+ 1.9	Jan	– 1.5	Feb	10.3	Feb§	10.5
Italy	+ 0.1	Q4	nil	+ 1.6	+ 2.0	+ 0.3	Jan	– 1.5	Dec	8.4	Oct	8.9
Japan	+ 3.4	Q4	+ 6.4	+ 2.6	+ 1.8	+ 6.9	Feb	+ 1.5	Jan	5.0	Feb	5.3
Netherlands	– 0.5	Q4	+ 1.2	+ 1.0	+ 1.9	+ 0.7	Jan	– 6.3	Dec‡	6.2	Feb**	4.6
Spain	+ 2.7	Q4	+ 3.0	+ 2.9	+ 2.9	– 2.9	Jan	+ 4.5	Jan	11.2	Jan	11.4
Sweden	+ 1.9	Q4	+ 2.2	+ 2.5	+ 2.6	+ 5.2	Jan	+ 7.4	Feb	6.0	Feb†	4.5
Switzerland	nil	Q4	+ 1.8	+ 1.6	+ 1.9	+ 1.7	Q4	+ 3.1	Jan	4.2	Feb†	3.6
United States	+ 4.3	Q4	+ 4.1	+ 4.7	+ 3.5	+ 2.7	Feb	+ 9.1	Feb	5.6	Feb	5.9
Euro area	+ 0.6	Q4	+ 1.2	+ 1.8	+ 2.2	+ 0.6	Jan	+ 1.0	Jan	8.8	Jan	8.7
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 1.6	Q4	+ 1.1	na	na	– 3.2	Feb	+ 7.3	Jan	9.0	Feb†	9.0
Greece	+ 5.0	Q4	na	na	na	+ 0.1	Jan	+ 6.4	Nov	na		na
Iceland	+ 4.9	Q4	na	na	na	– 0.3	2002	na		3.4	Dec†	3.0
Ireland	+ 2.7	Q4	na	na	na	+ 8.4	Jan	+ 0.3	Jan	4.7	Feb	4.3
Luxembourg	+ 1.3	2002	na	na	na	– 1.2	Dec	+ 5.8	Oct	4.4	Feb	3.8
New Zealand	+ 3.2	Q4	+ 2.4	na	na	+ 4.1	Q3	+ 6.0	Q4	4.6	Q4	4.9
Norway	+ 0.5	Q4	+ 2.4	na	na	+ 0.5	Jan	+ 2.6	Feb	4.2	Q4	3.7
Portugal	– 0.5	Q4	– 1.0	na	na	– 3.0	Jan	+ 0.6	Feb	6.6	Q4†	6.2

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Nov-Jan; claimant count rate 2.9% in Feb. §EU harmonised rate 9.3% in Feb. **Dec-Feb. +

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Prices and wages

Apr 1st 2004
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2004	2005	latest		year ago	latest		year ago
Australia	+ 2.4	Q4	+ 3.0	+ 2.2	+ 2.6	– 1.1	Q4	+ 1.6	+ 5.9	Q4	+ 3.9
Austria	+ 1.4	Feb	+ 1.7	+ 1.1	+ 1.4	+ 1.8	Feb	+ 2.1	+ 2.2	Feb	+ 2.2
Belgium	+ 1.1	Mar	+ 1.8	+ 1.4	+ 1.6	+ 1.4	Feb	+ 0.4	+ 1.9	Q1	+ 2.4
Britain	+ 1.3	Feb*	+ 1.6	+ 1.5	+ 1.8	+ 1.6	Feb	+ 1.5	+ 4.4	Jan	+ 3.7
Canada	+ 0.7	Feb	+ 4.6	+ 1.5	+ 2.0	– 2.5	Feb	+ 2.8	+ 4.0	Jan	+ 1.8
Denmark	+ 0.9	Feb	+ 2.9	+ 1.5	+ 2.0	– 0.1	Feb	+ 1.7	+ 3.7	Q4	+ 3.9
France	+ 1.8	Feb	+ 2.6	+ 1.8	+ 1.6	– 0.1	Feb	+ 2.2	+ 2.7	Q4	+ 3.5
Germany	+ 1.1	Mar	+ 1.2	+ 1.0	+ 1.1	+ 0.1	Feb	+ 1.6	+ 1.9	Jan	+ 2.5
Italy	+ 2.3	Mar	+ 2.7	+ 2.3	+ 2.1	nil	Feb	+ 2.8	+ 2.8	Feb	+ 2.2
Japan	nil	Feb	– 0.2	– 0.2	nil	nil	Feb	– 0.8	+ 2.0	Feb	+ 1.9
Netherlands	+ 1.2	Feb	+ 2.4	+ 1.5	+ 1.4	+ 0.6	Dec	+ 4.2	+ 2.0	Feb	+ 3.3
Spain	+ 2.1	Feb	+ 3.7	+ 2.5	+ 2.5	+ 0.7	Feb	+ 2.9	+ 3.3	Q4	+ 3.9
Sweden	– 0.3	Feb	+ 3.4	+ 1.4	+ 1.9	– 2.3	Feb	+ 0.6	+ 2.7	Dec	+ 4.0
Switzerland	– 0.1	Mar	+ 1.3	+ 0.5	+ 0.9	– 0.1	Feb	nil	+ 1.8	2002	+ 2.5
United States	+ 1.7	Feb	+ 3.0	+ 1.5	+ 1.8	+ 3.3	Jan	+ 2.5	+ 1.6	Feb	+ 3.4
Euro area	+ 1.6	Mar	+ 2.4	+ 1.7	+ 1.6	+ 0.3	Jan	+ 2.3	+ 2.6	Q3	+ 3.1
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.1	Feb	+ 1.9	na	na	– 1.8	Feb	+ 2.3	+ 3.7	Q4	+ 4.1
Greece	+ 2.5	Feb	+ 4.3	na	na	+ 1.4	Feb	+ 2.7	na		na
Iceland	+ 1.8	Mar	+ 2.2	na	na	+ 2.6	Mar	+ 3.3	+ 3.3	Jan	+ 5.5
Ireland	+ 1.7	Feb	+ 5.1	na	na	– 6.6	Feb	– 7.1	+ 6.1	Q4	+ 6.4
Luxembourg	+ 2.0	Feb	+ 2.5	na	na	+ 0.1	Dec	+ 1.3	– 0.4	Dec	+ 0.7
New Zealand	+ 1.6	Q4	+ 2.7	na	na	– 0.1	Q4	– 1.4	+ 2.3	Q4	+ 2.1
Norway	– 1.7	Feb	+ 4.8	na	na	– 1.3	Feb	+11.9	+ 3.9	Q4	+ 5.2
Portugal	+ 2.1	Feb	+ 4.2	na	na	– 0.5	Feb	+ 3.0	– 2.6	Dec	+ 0.4

*New series. RPI inflation rate in February: 2.5%.

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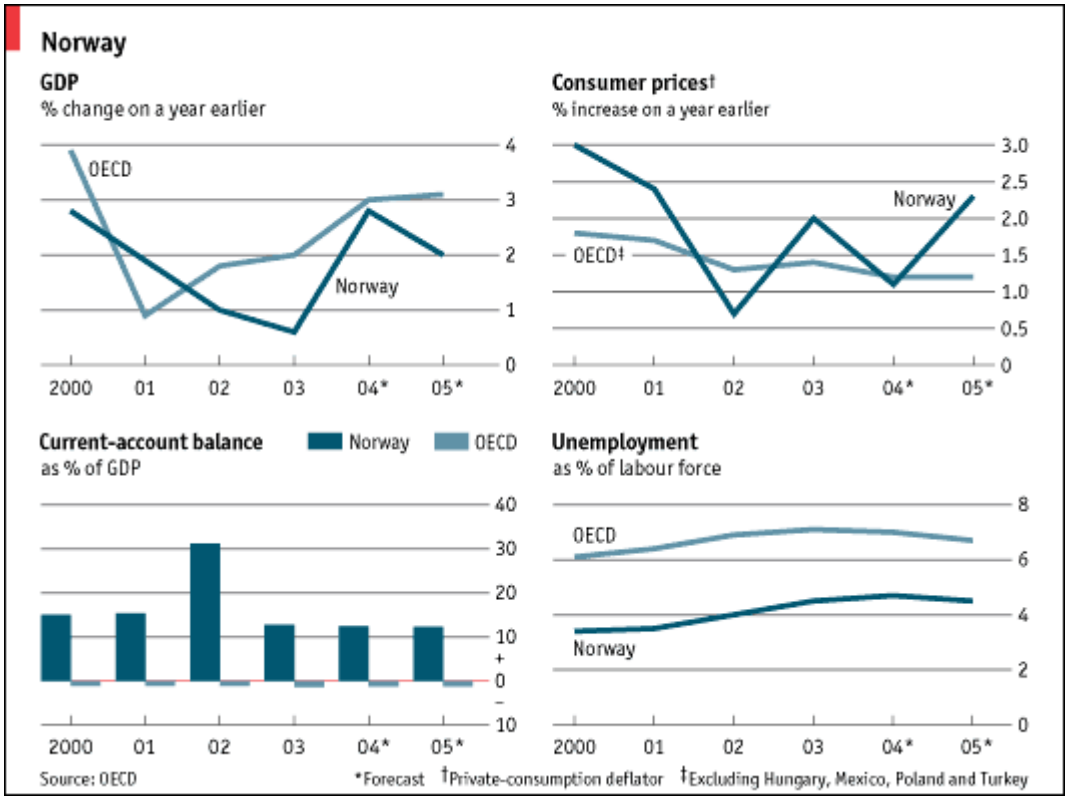
Norway

Apr 1st 2004
From The Economist print edition



Norway has grown slowly in the past two years. The global downturn hurt the economy and interest rates were raised in 2002 in order to resist wage pressures. A subsequent big loosening in monetary policy has set the foundation for a strong recovery in 2004. National output is expected to rise by 2.8%, up from a meagre 0.6% in 2003. Norwegians enjoy high living standards, comparable to those in America. But despite the oil wealth that has generated this prosperity, the country faces big fiscal burdens. About 5% of GDP is being spent on disability and sickness benefits. Age-related spending is poised to rise by 13 percentage points of GDP by 2050, the highest increase in the developed world. The OECD recommends reforms to tackle abuse of disability benefits, to curb the generosity of the pension system and to intensify competition in product markets.

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Money and interest rates

Apr 1st 2004
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Mar 31st 2004)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+10.6	+14.0	Feb	5.52	4.79	5.12	5.49	5.38	6.39
Britain	+ 6.8	+ 8.2	Feb	4.31	3.59	4.39	4.74	4.38	5.58
Canada	+10.3	+ 9.4	Feb	2.02	3.17	2.27	4.30	5.23	5.69
Denmark	+ 6.2	+ 6.6	Feb	2.10	2.70	2.25	4.03	4.31	5.12
Japan	+ 4.3	+ 1.7	Feb	0.03	0.02	0.11	1.44	0.70	1.55
Sweden	+ 1.0	+ 4.2	Feb	2.12	3.38	2.52	4.18	4.58	2.65
Switzerland	+24.0	+ 7.8	Feb	0.25	0.31	0.78	2.40	2.38	2.27
United States	+ 6.4	+ 4.0	Feb	1.04	1.17	1.54	3.83	3.93	5.41
Euro area†	+10.7	+ 6.3	Feb	1.96	2.51	2.10	3.88	4.06	3.69

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.78%, Japan No. 258 1.44%. Central bank rates: US fed funds 1.00%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.0%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Apr 1st 2004
From The Economist print edition

1995=100

	Mar 23rd	Mar 30th*	% change on one month	% change on one year
Dollar index				
All items	100.2	99.8	+ 2.4	+33.0
Food	100.5	98.1	+ 5.1	+27.9
Industrials				
All	99.8	102.2	– 1.0	+40.3
Nfa†	94.8	96.8	– 0.9	+25.6
Metals	104.0	106.7	– 1.1	+54.2
Sterling index				
All items	85.5	86.2	+ 3.6	+14.6
Euro index				
All items	107.1	107.8	+ 3.4	+19.0
Yen index				
All items	113.8	112.3	– 1.9	+18.8
Gold				
$ per oz	416.25	420.75	+ 6.9	+25.6
West Texas Intermediate				
$ per barrel	37.40	36.20	– 1.1	+21.7

* Provisional. † Non-food agriculturals.

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Stockmarkets

Apr 1st 2004
From The Economist print edition

Market indices

	Mar 31st	2004 high	2004 low	% change on one week	% change on record high	% change on Dec 31st 2003 in local currency	% change on Dec 31st 2003 in $ terms
Australia (All Ordinaries)	3,416.4	3,432.3	3,274.9	+ 0.9	– 0.7	+ 3.3	+ 4.7
Austria (ATX)	1,866.8	1,866.8	1,568.9	+ 1.6	nil	+20.8	+17.7
Belgium (Bel 20)	2,380.4	2,517.3	2,244.2	+ 2.5	–35.4	+ 6.1	+ 3.4
Britain (FTSE 100)	4,385.7	4,559.1	4,309.4	+ 1.8	–36.7	– 2.0	+ 0.6
Canada (Toronto Composite)	8,585.9	8,874.7	8,220.9	+ 2.0	–24.6	+ 4.4	+ 2.7
Denmark (KBX)	227.7	241.3	219.0	– 0.7	–24.6	+ 6.6	+ 3.9
France (SBF 250)	2,493.5	2,594.4	2,411.5	+ 3.2	–43.2	+ 3.4	+ 0.8
(CAC 40)	3,625.2	3,785.4	3,518.5	+ 3.0	–47.6	+ 1.9	– 0.7
Germany (DAX)	3,856.7	4,151.8	3,726.1	+ 3.5	–52.2	– 2.7	– 5.2
Italy (BCI)	1,281.0	1,325.5	1,239.5	+ 3.4	–41.3	+ 1.9	– 0.7
Japan (Nikkei 225)	11,715.4	11,770.7	10,365.4	+ 3.1	–69.9	+ 9.7	+13.0
(Topix)	1,179.2	1,179.2	1,022.6	+ 2.9	–59.1	+13.0	+16.4
Netherlands (AEX)	338.9	364.8	326.3	+ 3.8	–51.7	+ 0.4	– 2.2
Spain (Madrid SE)	841.5	875.0	808.3	+ 3.4	–26.6	+ 4.1	+ 1.5
Sweden (Affarsvarlden Gen)	202.8	218.1	188.5	+ 3.0	–49.3	+ 7.7	+ 2.8
Switzerland (Swiss Market)	5,618.6	5,934.4	5,469.0	+ 2.1	–33.2	+ 2.4	+ 0.1
United States (DJIA)	10,357.7	10,737.7	10,048.2	+ 3.1	–11.6	– 0.9	– 0.9
(S&P 500)	1,126.2	1,157.8	1,091.3	+ 3.2	–26.3	+ 1.3	+ 1.3
(NASDAQ Comp)	1,994.2	2,153.8	1,901.8	+ 4.4	–60.5	– 0.5	– 0.5
Europe (FTSE Eurotop 300)*	981.5	1,026.2	957.9	+ 2.3	–42.4	+ 2.5	– 0.2
Euro area (FTSE Ebloc 100)*	840.4	888.3	815.4	+ 3.1	–45.8	+ 1.0	– 1.5
World (MSCI)†	1,059.2	1,085.8	1,025.9	+ 3.2	–26.9	+ 2.2	+ 2.2
World bond market (Citigroup)‡	614.9	619.5	595.1	+ 0.5	– 0.7	+ 1.9	+ 1.9

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Apr 1st 2004
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		Current account The Economist poll % of GDP, forecast 2004	Current account The Economist poll % of GDP, forecast 2005	Exchange rate trade-weighted† 1990=100 Mar 31st	Exchange rate trade-weighted† 1990=100 year ago	Currency units per $ Mar 31st	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2004‡
Australia	− 15.9	Feb	− 30.0	Q4	− 5.1	− 4.5	88.4	77.2	1.31	1.67	2.41	1.61	1.26	0.5
Austria	− 1.2	Dec	− 1.5	Jan	− 0.2	− 0.3	103.4§	101.6	0.81	0.93	1.50	–	0.78	-1.2
Belgium	+ 19.3	Jan	+ 9.9	Sep	+ 4.1	+ 4.2	103.8§	101.4	0.81	0.93	1.50	–	0.78	nil
Britain	− 79.8	Jan	− 30.8	Q4	− 2.4	− 2.3	105.1	99.9	0.54	0.64	–	0.67	0.52	-2.9
Canada	+ 43.5	Jan	+ 18.5	Q4	+ 1.4	+ 1.0	87.4	79.6	1.31	1.48	2.42	1.62	1.26	0.7
Denmark	+ 9.6	Jan	+ 6.6	Jan	+ 2.6	+ 2.6	106.3	105.4	6.06	6.88	11.1	7.45	5.82	1.0
France	+ 2.5	Jan	+ 16.7	Jan	+ 1.2	+ 1.2	107.4§	104.5	0.81	0.93	1.50	–	0.78	-3.7
Germany	+152.8	Jan	+ 57.1	Jan	+ 2.5	+ 2.4	105.2§	101.7	0.81	0.93	1.50	–	0.78	-3.7
Italy	+ 1.2	Jan	− 21.6	Jan	− 1.0	− 0.8	76.6§	74.5	0.81	0.93	1.50	–	0.78	-2.9
Japan	+110.2	Jan	+142.3	Jan	+ 3.0	+ 2.9	141.0	131.1	104	119	191	128	–	-6.8
Netherlands	+ 31.9	Jan	+ 14.4	Q4	+ 3.2	+ 3.4	103.4§	100.6	0.81	0.93	1.50	–	0.78	-2.5
Spain	− 53.5	Jan	− 25.0	Dec	− 2.5	− 2.6	77.7§	75.9	0.81	0.93	1.50	–	0.78	0.2
Sweden	+ 20.1	Feb	+ 18.9	Q4	+ 4.8	+ 4.5	79.9	78.9	7.54	8.55	13.9	9.27	7.25	0.5
Switzerland	+ 7.3	Feb	+ 29.4	Q3	+10.6	+10.6	111.2	115.4	1.27	1.37	2.33	1.56	1.22	na
United States	−552.7	Jan	−540.9	Q4	− 5.1	− 4.9	94.8	108.0	–	–	1.84	1.23	0.96	-5.1
Euro area	+ 87.1	Jan	+ 32.4	Jan	+ 0.7	+ 0.6	90.1	87.2	0.81	0.93	1.50	–	0.78	-2.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.4	Jan	+ 9.6	Jan	na	na	82.7§	80.3	0.81	0.93	1.50	–	0.78	1.9
Greece	− 25.9	Jan	− 11.0	Jan	na	na	59.9§	58.7	0.81	0.93	1.50	–	0.78	-1.6
Iceland	− 0.3	Feb	− 0.6	Q4	na	na	93.5**	92.9	72.0	77.4	132	88.5	69.2	0.2
Ireland	+ 39.8	Jan	− 2.1	Q3	na	na	95.8§	91.6	0.81	0.93	1.50	–	0.78	-1.3
Luxembourg	− 3.5	Jan	+ 2.5	Q4	na	na	103.8§	101.4	0.81	0.93	1.50	–	0.78	-1.8
New Zealand	− 2.1	Feb	− 3.5	Q4	na	na	103.1	96.7	1.50	1.81	2.76	1.85	1.44	2.2
Norway	+ 27.8	Feb	+ 30.1	Jan	na	na	95.3	101.8	6.86	7.25	12.6	8.43	6.60	9.7
Portugal	− 13.7	Dec	− 8.0	Jan	na	na	93.4**	91.3	0.81	0.93	1.50	–	0.78	-3.0

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, January average. ‡OECD forecast. **IMF, November average.

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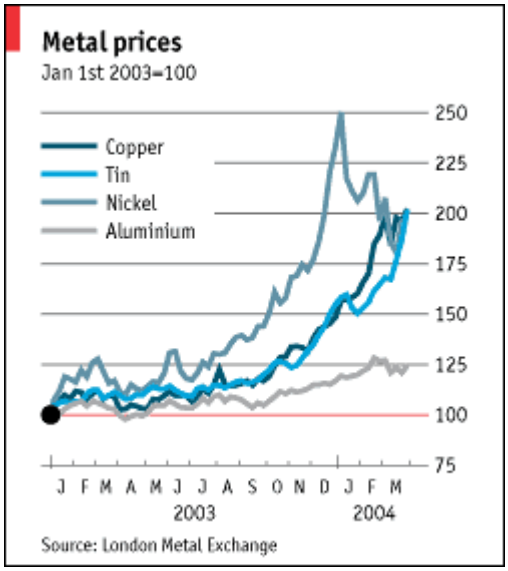
Metal prices

Apr 1st 2004
From The Economist print edition

Base-metal prices are soaring thanks to strong demand from China. Tin prices are at their highest for 14 years. Copper and aluminium have hit eight-year highs.



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Overview

Apr 1st 2004
From The Economist print edition

India is growing at one of the fastest rates of any emerging economy. Its real GDP rose by 10.4% in the year to the fourth quarter, which edged past China's reported growth rate of 9.9% during the same period.

Turkey's economy grew in 2003 by 5.8%, a much faster pace than expected, thanks partly to strong industrial production and a rebound in construction.

Industrial output in **South Korea** rose by 16.6% in the year to February, up from only 4.6% in the year to January.

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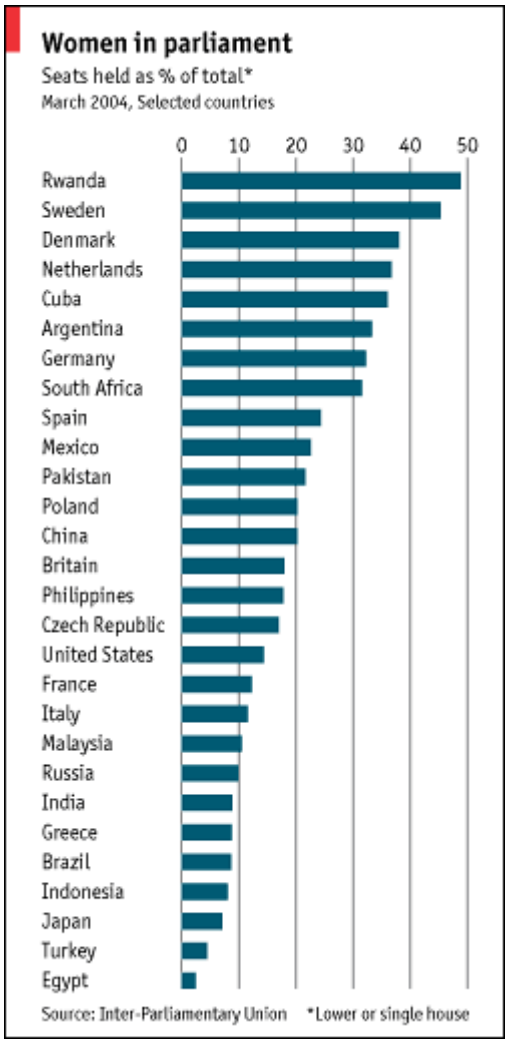
Women in parliament

Apr 1st 2004
From The Economist print edition

Surprisingly, perhaps, Rwanda heads the international league-table for female representatives in national parliaments. However, this pole position is more apparent than real, since it reflects the grip of the ruling party over parliamentary nominations. Nordic countries still dominate the top rankings. Sweden, Denmark and Finland have the highest proportions of women in parliament after Rwanda. On average, women account for 15% of the world's parliamentary representatives. In 14 countries, they comprise 30% or more; in 65 countries they account for 10% or less.



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Economy

Apr 1st 2004
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.9	Q4	+23.2	Feb	+ 2.1	Feb	+18.1	Feb	+35.4	2002	415.7	Jan
Hong Kong	+ 5.0	Q4	– 6.1	Q4	– 2.0	Feb	– 9.8	Feb	+17.4	Q4	123.5	Feb
India	+10.4	Q4	+ 7.4	Jan	+ 4.3	Jan	–15.6	Jan	+ 3.2	Q4	104.1	Feb
Indonesia	+ 4.3	Q4	+ 5.1	Jan	+ 5.1	Mar	+28.5	Jan	+ 7.8	Q3	34.7	Jan
Malaysia	+ 6.4	Q4	+16.7	Jan	+ 0.9	Feb	+19.5	Jan	+12.3	Q4	43.5	Jan
Philippines	+ 4.5	Q4	– 0.2	Jan	+ 3.4	Feb	– 1.9	Jan	+ 3.3	Dec	12.7	Feb
Singapore	+ 4.9	Q4	+38.3	Feb	+ 1.6	Feb	+15.8	Feb	+28.2	Q4	101.2	Feb
South Korea	+ 3.9	Q4	+16.6	Feb	+ 3.1	Mar	+24.0	Mar	+18.4	Feb	162.1	Feb
Taiwan	+ 5.2	Q4	+28.0	Feb	+ 0.6	Feb	+16.3	Feb	+28.6	Q4	224.8	Feb
Thailand	+ 7.8	Q4	+11.6	Jan	+ 2.3	Mar	+ 4.0	Feb	+ 7.9	Feb	42.2	Jan
Argentina	+ 9.8	Q3	+ 9.7	Feb	+ 2.3	Feb	+14.8	Jan	+ 7.9	Q4	15.0	Feb
Brazil	– 0.1	Q4	+ 1.7	Jan	+ 6.7	Feb	+26.1	Feb	+ 5.0	Feb	53.3	Jan
Chile	+ 3.3	Q4	+ 8.0	Feb	nil	Feb	+ 3.5	Feb	– 0.6	Q4	16.1	Feb
Colombia	+ 4.3	Q4	+ 3.6	Dec	+ 6.3	Feb	nil	Dec	– 1.6	Q3	11.1	Jan
Mexico	+ 2.0	Q4	+ 0.8	Jan	+ 4.5	Feb	– 6.1	Feb	– 9.2	Q4	59.2	Feb
Peru	+ 3.0	Jan	+ 2.9	Jan	+ 3.4	Feb	+ 0.9	Jan	– 1.1	Q4	9.8	Jan
Venezuela	+ 9.0	Q4	+100.4	Jan	+21.9	Feb	+15.0	Q4	+ 9.6	Q4	16.0	Dec
Egypt	+ 3.1	2003†	+ 2.6	2003†	+ 5.5	Dec	– 6.0	Jul	+ 3.3	Q3	13.7	Jan
Israel	– 0.6	Q4	+ 3.0	Jan	– 2.5	Feb	– 6.5	Feb	– 0.2	Q4	26.2	Feb
South Africa	+ 1.5	Q4	– 1.4	Dec	+ 0.7	Feb	+ 1.9	Feb	– 1.5	Q4	6.8	Feb
Turkey	+ 6.1	Q4	+ 6.5	Jan	+14.3	Feb	–22.5	Jan	– 6.7	Dec	33.7	Jan
Czech Republic	+ 3.1	Q4	+ 3.8	Jan	+ 2.3	Feb	– 2.3	Feb	– 5.7	Q4	26.8	Feb
Hungary	+ 3.5	Q4	+ 9.9	Jan	+ 7.1	Feb	– 3.8	Jan	– 5.6	Jan	13.1	Feb
Poland	+ 3.9	Q3	+14.3	Jan	+ 1.6	Feb	– 9.7	Dec	– 3.9	Jan	36.3	Feb
Russia	+ 5.7	Q3	+ 8.7	Feb	+10.8	Feb	+60.7	Jan	+39.1	Q4	82.6	Feb
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 5.8	Q4	+ 7.6	Jan	+ 0.4	Feb	– 2.0	Jan	– 1.6	Q4	1.2	Jan
Latvia	+ 7.4	Q4	+ 5.6	Jan	+ 4.3	Feb	– 2.0	Jan	– 1.0	Jan	1.4	Jan
Lithuania	+10.6	Q4	na		– 1.3	Feb	– 2.7	Jan	– 1.2	Q4	3.3	Jan
Slovakia	+ 4.7	Q4	+ 1.3	Jan	+ 8.5	Feb	– 0.5	Feb	– 0.3	Dec	11.8	Jan
Slovenia	+ 2.3	Q3	+ 3.6	Dec	+ 3.5	Mar	– 0.8	Jan‡	nil	Jan	8.5	Dec
Pakistan	+ 5.1	2003†	+ 3.5	Nov	+ 4.3	Feb	– 1.5	Feb	+ 3.6	Q4†	10.3	Jan
Saudi Arabia	+ 1.0	2002	na		+ 0.4	Nov	+41.8	2002	+11.9	2002	23.9	Jan

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

Apr 1st 2004
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Mar 31st		Dec 31st 2003	
	Mar 31st	year ago	Mar 31st	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	15.2	na	1,826.5	+0.1	+ 16.4	+ 16.4
Hong Kong	7.79	7.80	14.3	0.17	12,681.7	nil	+ 0.8	+ 0.5
India	43.4	47.4	79.8	4.41	5,590.6	+3.6	– 4.3	+ 0.6
Indonesia	8,564	8,884	15,739	7.71	735.7	–0.4	+ 6.3	+ 4.6
Malaysia	3.80	3.80	6.98	3.00	901.9	+0.7	+ 13.6	+ 13.6
Philippines	56.2	53.2	103.2	9.19	1,424.3	+2.5	– 1.3	– 2.4
Singapore	1.68	1.77	3.08	0.69	1,858.9	+1.3	+ 5.3	+ 6.7
South Korea	1,146	1,255	2,107	3.90	880.5	+2.2	+ 8.6	+ 12.9
Taiwan	33.0	34.8	60.6	1.10	6,522.2	+5.0	+ 10.7	+ 14.1
Thailand	39.3	43.0	72.2	1.31	647.3	–4.5	– 16.2	– 15.5
Argentina	2.85	2.93	5.24	2.88	1,201.7	–3.1	+ 12.1	+ 15.2
Brazil	2.92	3.27	5.36	16.02	22,142.3	+5.5	– 0.4	– 1.4
Chile	617	720	1,134	1.68	7,471.5	+1.2	+ 1.8	– 2.2
Colombia	2,682	2,958	4,928	7.67	3,321.2	+4.8	+ 42.3	+ 47.5
Mexico	11.2	10.7	20.5	6.05	10,517.5	+3.5	+ 19.6	+ 20.3
Peru	3.46	3.47	6.36	2.50	3,035.7	+3.9	+ 24.7	+ 24.8
Venezuela	3,105§	1,598	5,707	na	26,579.7	+0.1	+ 19.7	+ 9.9
Egypt	6.19	5.76	11.38	7.89	14,216.5	+3.3	+ 22.2	+ 21.7
Israel	4.53	4.67	8.32	1.15	566.1	+1.4	+ 5.9	+ 2.9
South Africa	6.32	8.00	11.6	8.20	10,692.6	+1.4	+ 2.9	+ 8.8
Turkey	1,314,000	1,684,000	2,415,001	20.00	20,190.8	–0.8	+ 8.4	+ 15.9
Czech Republic	26.7	29.7	49.1	2.05	823.8	+1.3	+ 25.0	+ 20.1
Hungary	202	229	372	11.85	10,992.3	+3.3	+ 17.2	+ 20.0
Poland	3.86	4.07	7.10	5.49	23,870.1	+2.2	+ 14.6	+ 11.1
Russia	28.5	31.3	52.4	14.00	752.7‡	+6.7	+ 29.4	+ 32.7
EMF (MSCI)*	1.00	1.00	1.84	na	482.1	+3.6	+ 8.9	+ 8.9
EMBI+†	1.00	1.00	1.84	na	304.5	+0.1	+ 3.3	+ 3.3

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡ In $ terms. § Floating exchange rate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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